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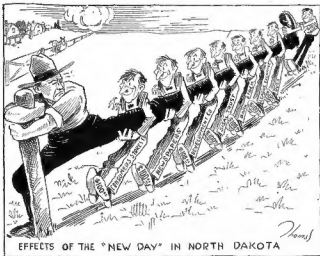


# The Nonpartisan League in North Dakota

A study of a class war and  
its disastrous consequences,  
together with a comparison  
of bank services in Canada  
and Western States.

Published by the  
Canadian  
Reconstruction  
Association  
March, 1921

A Typical Cartoon in the Fight against "Townleyism".



Reproduced from a publication edited by Mr. Carl R. Koslitzky, who was State Auditor of North Dakota until the last election.

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# The Nonpartisan League in North Dakota

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## PREFACE

The following study of The Nonpartisan League is based in the main upon a survey in North Dakota and Minnesota just prior to the elections in November, 1920. It represents many interviews with officials of The Nonpartisan League and with bankers and other business men. The information thus obtained was supplemented by a careful study of documentary evidence and propaganda material, including literature issued by The Nonpartisan League, by the Industrial Commission of North Dakota, and by opponents of the League. Since the writer's return from North Dakota he has kept in touch with developments there by correspondence and otherwise and in this way it has been possible to bring the report to date as of March, 1921.

It is believed that an understanding of the experience of other countries will assist the Canadian people to deal intelligently with suggestions looking to dangerous government experiments in the Dominion and this pamphlet is issued in the hope that it may be of value by making available the facts in connection with the policies of The Nonpartisan League, particularly in North Dakota, and in showing the outcome of those policies.

Thanks are due to the many gentlemen who have assisted in the preparation of the survey, by supplying information or by checking the manuscript.

CANADIAN RECONSTRUCTION ASSOCIATION

S. ROY WEAVER,

Investigation Department.

Toronto, March, 1921.

# THE NONPARTISAN LEAGUE IN NORTH DAKOTA

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## Its Origin and Development

The student of the North Dakota situation is confronted at the outset with an apparent anomaly. North Dakota is essentially an agricultural State, with more than 80 per cent. of the population rural and the remainder dependent principally upon agricultural activities. There is little manufacturing of importance and only one city of more than 20,000 persons. The farm population is traditionally the most conservative element in the Nation. Why, then, should an agricultural State embark on experiments which, to characterize them mildly, are highly radical? Why should the farmers give a surprising measure of arbitrary power to one man, or at least to a small group, with proved socialistic beliefs and affiliations? The only tenable explanation is that the radical programme has been forced on the farmers, despite their traditional conservatism, by resentment aroused by alleged grievances.

North Dakota settlers for the most part were attracted by the lure of cheap lands. The rewards of pioneer farming are often slow and the difficulties great. In the dry districts drought is a continuous menace and a succession of lean crops discouraged many and, indeed, left them with scant resources. Impoverishment of the original fertility of the soil was probably responsible for reducing the returns from grain growing and the transition to mixed farming was only just commencing in many instances. Nevertheless, in general the North Dakota agriculturists have been prosperous. The value of farm lands and buildings in 1890 was officially reported at \$75,310,305; in 1900 at \$200,780,700; and in 1910 at \$822,656,744. With a population of about 650,000 there are now close to 100,000 motor cars in the State. For the most part the people were fairly contented until professional agitators from outside the State aroused them with exaggerated, and often totally untrue, charges against the commercial and financial interests and preached the doctrine of class war. It is probably inevitable that there should be serious marketing difficulties in any community which is predominantly agricultural and largely dependent upon one-season crops, such as grain. Such difficulties are aggravated by pioneer conditions and the resultant lack of adequate marketing facilities. In North Dakota, too, it was made worse by the unit banking system, with independent banks of small resources. There was considerable objection to the interest rates charged on farm mortgage loans and on money borrowed otherwise. North Dakota banks, in so far as they had connections, were linked with

institutions at Minneapolis, in the neighbouring State, and were dependent upon the Minneapolis banks for money on re-discounts. The farmers were required to pay somewhat higher rates of interest for money than were charged to urban borrowers on commercial loans, because of the heavier cost of handling farm loans and the fact of less complete organization, and also because in many instances the agriculturists did not apply sound business principles to the conduct of their activities."

In consequence, the Minneapolis financial institutions came to be regarded not uncommonly as a "Money Trust," which was discriminating against, and "bleeding," agricultural borrowers. Nonpartisan League propagandists have made much of the fact that a bulletin, issued in July, 1916, by the United States Department of Agriculture, reported that the average interest rate on farm mortgage loans in North Dakota, including commission, was 8.7 per cent. But the significance of such average has been exaggerated. It was arrived at by including all mortgages in the State, many of which were for renewals of debts originally contracted in the purchase of stock and implements and at rates that were much higher than was the interest expected on loans. That the interest rate in North Dakota on bona fide loans with good security was considerably lower than the average quoted, is indicated by the fact that one company has actually loaned \$10,000,000 in North Dakota at an interest rate which from 1902 to 1920 ranged from 5 to 7 per cent., and which is now 7½ per cent. North Dakota, like all other new agricultural areas, has been largely dependent upon outside capital for development purposes. In 1916 the estimated total farm mortgage debt of the State was \$100,364,000, of which 19.4 per cent. was held by life insurance companies and 5 per cent. by the banks, while 42.2 per cent. was "handled" by the banks. The bulletin already referred to stated that in North Dakota the banks negotiated about \$40,000,000 a year in farm mortgage loans for other investors, whereas the amount invested in farm loans from their own funds was only one-eighth of that sum. A very large part of the mortgage loans "handled" by the banks in this way was sold outside the State.

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"This is not intended as a reflection on farmers as a class. Nevertheless there appears to be much truth in the recent statement by the President of the New York State Bankers' Association that, if the farmers would handle their products in the way the best business houses do, their loans would be as welcome as those of the business houses. He added: "We find that many of our men (farmers) are careless in their method of handling, sorting and marketing their produce, and do not appreciate how much in the way of profit to themselves and extension of credit they miss by their haphazard methods."

The United States Department of Agriculture, in its Bulletin Number 384, dated July 31, 1916, said: "No factor is given greater consideration by farm mortgage investors, in determining their attitude towards loans in a given area, than the prevailing method of farming. The careful investor in farm mortgages considers all the known factors affecting the income of the farm offered as a security. He studies the relation of the farm income to the price of the land to determine whether the farm value is on a speculative or an investment basis. He is interested in the degree of regularity in income from year to year, and therefore tries to ascertain what crops or products are raised and how far these are adapted to the given conditions. He knows the extra hazards involved in one-crop farming, and therefore inquires about tendencies in the direction of diversified agriculture. He even inquires into the business habits of the farm owners and the kind of care given to the farm products. It is necessary, in general, to understand the importance of differences along all these lines in order to explain the variation in the costs of farm-mortgage loans to borrowers."



## PRICES OF GRAIN AND FLOUR

Then, too, the farmers saw a considerable disparity between the price which they received for grain and the price which consumers in the cities, and indeed the farmers themselves, had to pay for flour. The justification of such disparity was first questioned and then denied. At Minneapolis was the Minneapolis Chamber of Commerce, a grain exchange which served as a terminal market for North Dakota wheat as well as for the wheat of Minnesota and other Western States. The intricacies of exchange dealings were not clearly understood by the farmers and the Minneapolis Chamber appeared to many of them as a great gambling institution, with the farmers as its principal victims. The farmers' complaints seemed to find support in the fact that the Chamber of Commerce was more or less of a closed corporation and the "inside workings" appeared to be surrounded with much mystery. It was another case of a no-publicity policy intensifying suspicion. Coupled with the supposed grain exchange "monopoly," and apparently one of the ramifications of that monopoly, were privately-owned country and terminal grain elevators upon which the farmers largely were dependent. At these elevators they received for their grain a price based on the market quotations on the Minneapolis exchange. The farmers failed to see that the Minneapolis quotations were the result of demand and supply and that the Minneapolis prices, in turn, were based upon prices in the export markets of the world. The country elevators had the final word as to grades and they also paid for the grain, less dockage, which covered dirt, small seeds, etc. In North Dakota, as in Western Canada, most of the grain is marketed in the condition in which it comes from the thresher, i.e., without cleaning, and the price paid therefore must make ample allowance for the cost of cleaning, the lesser value of the screenings as compared with clean grain, and the freight on dockage. No one denies that under the pioneer conditions there were some grain dealers, and some bankers as well, who charged what the traffic would bear, and, although representing only a small percentage of all the dealers or bankers, these brought reproach upon those whose code of ethics was less elastic. Human nature is very much the same in the farmer, grain buyer, railroad director, banker, miller or merchant, and even among the agriculturists are occasional "black sheep." In the marketing of grain, competition between elevators, millers, dealers, and commission men became more keen and the margin of profit was reduced, but misunderstandings continued and with such misunderstandings the class consciousness of the farmers became intensified and bitterness developed.

## SUSPICIONS PROVED GROUNDLESS

Examination in detail of the farmers' alleged grievances is not possible within the present survey. It may be pointed out, however, that Mr. L. D. H. Weld, at one time Professor of Economics at the Farm School of the University of Minnesota, and later Professor of Business Administration at Yale University, was commissioned by the Secretary of the United States Department of Agriculture to prepare for the Federal Office of Markets and Rural Organization a true and unbiased report of marketing conditions surrounding farm products. The results of Professor Weld's investigation were published in January, 1916, in book form, under the title, "The Marketing of Farm Products."

The inquiry was a most searching one, but Professor Weld was forced to the conclusion that "on the whole the system of marketing that has developed, is efficient," and also that "there are very good practical reasons for the form of organization that has developed." In a letter dated in January of the current year, Mr. Weld wrote:

"I agree with you that in so far as there may have been any legitimate grievances on the part of North Dakota farmers they were largely due to pioneer conditions and lack of sufficient organization. The important point to me, however, is that such an efficient organization developed at such an early date, and that on the whole there has been such adequate machinery for marketing grain expeditiously and in such a manner that it would bring the full market price. There undoubtedly were occasional dishonest practices, and it is possible that most of these dishonest practices occurred at country points on the part of local buyers, rather than in the large central markets where the organized exchanges have developed. I certainly feel that most of the dissatisfaction is due to a misunderstanding and to groundless suspicion."

Mr. H. Bruce Price, Instructor in Economics at Yale University, who as a result of several years' close study is thoroughly familiar with the North Dakota situation in its bearing on the marketing of grain, also has expressed the opinion that the criticism by the grain growers "rests on a misunderstanding of market practice and market functions."

The belief that prices paid to the farmers for their grain were manipulated and that the agriculturists were victimized by middlemen led to extreme and unsound views all through the Northwestern States. For example, in December, 1913, the Minnesota Union of the American Society of Equity passed a resolution declaring that "the doctrine of supply and demand is false"; that prices were made "artificially by the modern business combinations"; and that "hence the only true basis upon which farm products may be based is on their cost at their source on the farm." The resolution went on to say: "And we respectfully ask our professors at the College of Agriculture to modify their views on this economic question and give us a new economy based on modern conditions as far as food products are concerned." It will be seen that North Dakota was not the only State where the farmers thought they had grievances; indeed, the comparative success of The Nonpartisan League in North Dakota may be attributed largely to accidental causes, the absence of the restraining influence of non-agricultural elements, and the versatility and proselyting fervor and abilities of one man, Mr. A. C. Townley. Among such accidental causes undoubtedly was the succession of partial or almost complete crop failures in the western part of the State. These left many of the farmers with almost nothing to lose and, therefore, favorable to any experiment or project which appeared to promise relief.

### FARMERS' ELEVATORS ERECTED

In the hope of sharing in the profits, commonly believed to be abnormal, from the handling of grain, many elevators were erected by the farmers themselves or by other private interests to compete with the so-called "line"† companies. Few of the farmers' elevators were strictly co-operative: for the most part they were owned by farmer shareholders in joint stock companies. In 1917 there were 2,180 local elevators in the State, of which some 530 were owned and operated by farmers. The competition resulting from the increase in the number of elevators had the effect of narrowing the "spread" in price between

\*See Appendix.

†"Line" companies are those which own or control a system of country elevators and also one or more terminal elevators.



Equity Co-operative Exchange moved its office to St. Paul, where it is still operating in a comparatively small way. Reports at the annual meeting of the organization held at Fargo in January of this year, showed a healthy condition and fair profits. Nevertheless the Equity Co-operative Exchange cannot be said to have fulfilled the hopes of its founders and it still indulges in recriminations against the larger grain exchange at Minneapolis. The Society of Equity of North Dakota may be regarded as the forerunner of The Nonpartisan League without intending to do so, it undoubtedly paved the way for the more radical organization. The North Dakota development is an impressive example, and should afford solemn warning, of the great dangers of inciting to class-consciousness and bitterness and the menace of false economics based on prejudice and misunderstanding.

## THE BIRTH OF THE LEAGUE

In 1883, the Legislature of North Dakota passed an Act to provide for the purchase of a site and for the erection of a State elevator at Duluth Minn. or at Superior or West Superior Wis. but no further action was taken. In 1912 the voters of the State authorized the Legislative Assembly to enact laws for the erection purchasing or leasing, and operation of terminal elevators in Minnesota or Wisconsin again without result. In 1914 again by a large favorable vote the Assembly was empowered to provide by law for the erection purchasing or leasing and operation of one or more State terminal elevators in North Dakota. On February 2 1915, representatives of several farmers co-operative organizations petitioned the Legislative Assembly to allow them to appear before members of the Legislature at a joint session for the purpose of discussing the matter of State terminal elevators. The meeting was arranged and the Late Mr. George E. Loftus, representing the Society of Equity made a scathing attack upon the Legislature and representative citizens. Mr. Treadwell Twitchell Republican Leader in the House of Representatives took issue with Mr. Loftus. He showed the utter futility of attempting to cope effectively with the problem with the money then at the disposal of the Legislature. Moreover he pointed out objections to the State of North Dakota owning and operating an elevator in Minnesota or Wisconsin where it would be within the jurisdiction of another State. The debate featured by the attack by Mr. Loftus and the rejoinder of Mr. Twitchell, intensified the farmers bitterness. After the meeting someone appears to have said that Mr. Twitchell, in opposing the demands for state elevators told the farmers "Go home and skip your hops the farmer has no business in politics leave the politics to us." That such a statement was made by the House Leader has been repeatedly denied and indeed seems highly improbable. Challenges have failed to discover any one who will claim to have heard it. Probably it was only some auditor's picturesque and extravagant way of summarizing Mr. Twitchell's argument. But while the expression is apocryphal its alleged authorship has been so often declared on the public platform, in the printed propaganda of The Nonpartisan League and otherwise, and it has been employed so cleverly to arouse the agriculturists that most North Dakotians appear to believe that Mr. Twitchell actually used it. Following the meeting with the Legislature, Mr. Loftus called an evening meeting at which he made his famous roll-call of members of the Senate and House. It was at this

night meeting in February 1913, that Mr. A. C. Townley came on the stage and The Nonpartisan League was born.

Mr. A. C. Townley was born in Minnesota but when a young man went to Beach N.D. then a frontier town in the grip of a real estate boom. After a short experience there combining farming and land promotion he moved to Cheyenne Wells, Colorado where he entered an ambitious development and promotion scheme. From Colorado he returned to Beach N.D. and there engaged in the cultivation of flax. The first year he had 900 acres under crop and made a profit of some \$20,000 and the following year he expanded his ranch to more than 5,000 acres. But his crop this time was a failure and as a result of this and other reverses Mr. Townley was forced into bankruptcy. Following the failure of his flax project he became State Organizer for the Socialist party in North Dakota. He was a candidate in the Socialist ticket in 1914 for election to the Legislature but was defeated. Following such defeat he and Mr. A. J. Bowen who had been a Socialist candidate for Governor in 1912 and in 1914 was candidate for election to the Legislature on the Socialist ticket came to Bismarck to attend the Legislature session. Mr. Townley, Mr. Bowen and a number of other Socialists attended the night meeting in February 2, 1913, called by The Society of Equity and Mr. Bowen returned to the embattled farmers a plan for a farmers organization with dues, State headquarters, an official newspaper and with organizers and speakers in the field. The proposal was enthusiastically endorsed by the meeting. The scheme appears at its inception to have been Mr. Bowen's, rather than Mr. Townley's and it is said to have been first discussed in the home of Mr. M. P. Johnson, President of The Society of Equity of North Dakota in the early winter of 1914-15 by Mr. Johnson, Mr. Bowen and one other. There is also evidence that it was Mr. Bowen who persuaded Mr. Townley that the plan was practicable.

## DETAILS OF ORGANIZATION

Following endorsement of the project by the meeting held under the auspices of The Society of Equity developments came rapidly with Mr. Townley the promoter as the driving force and practical executor. The Nonpartisan League was organized, a pledge drawn for members to sign, membership fees placed at \$6 per annum, and organizers engaged on a general commission basis and schooled by Messrs. Townley and Bowen in their work. Mr. Townley became President of the temporary organization, all the officers were Socialists or at least had Socialist connections or affiliations. There is danger of overloading the cry of

Welf. Wre. as opposed to Socialists, the contention of the supporters of The Nonpartisan League that the League ought to be judged by its works rather than by the past or present political philosophy of certain of its members is not without justice. Nevertheless there is significant evidence to believe that since the commencement of The Nonpartisan League regime in North Dakota that State has become the Mecca for radicals of almost every creed and stripe many of whom are now, or have been, in the payroll of the State and others on the salary list of The Nonpartisan League. Many of the League workers are or have been Socialists of national and even international reputation and The Nonpartisan League has advertised in the Appeal to Reason for organizers for the various States in which the League is operating. The mercenary affiliations of the League organizers and employees are shown

in original letters and documents which have been placed in the State Historical Library at St. Paul. This information has also been compiled in book form in which many of these letters and documents have been reproduced, under the title "The Leaders of The Nonpartisan League" by Mr. Asher Howard of Minneapolis. There is, for example, indisputable evidence of negotiations between officials of The Nonpartisan League of North Dakota and the Farm Hands Division of the Industrial Workers of the World known as Agricultural Workers Union No. 400 looking to an agreement for the hiring of farm help in North Dakota only through the Minneapolis office of the A. W. C. Suggestions that The Nonpartisan League was involved in German propaganda in the United States after the country joined the Entente Allies have not been proved, although Mr. Townley was arrested and convicted on a charge of making disloyal speeches. Mr. J. R. Waters, who formerly was Manager of The Bank of North Dakota, has testified under oath that Mr. J. J. Hastings, formerly local agent of The Nonpartisan League told him that he, Mr. Hastings, got \$50,000 of German money after meeting a Mr. Fodgenstocker and others at dinner and giving them a talk on the aims and purposes of The Nonpartisan League and its need of financing.

Mr. A. C. Townley himself is perhaps better described as an opportunist than as a Socialist. Although formerly State Organizer for the Socialist party of North Dakota, he was later repudiated by that organization after he had engaged many of its workers for service under him in The Nonpartisan League. The Ironist, the organ of the Socialist party in North Dakota in May 1916 said in part:

"Some men I fear that there is no adjective in the English language strong enough to apply to myself and my comrades for letting some of the Townley stripe decide us of our senses to the extent of allowing our organization to be used as a stepping stone to deceive and defraud our fellow men."

A. C. Townley, the king pin of our scoundrels and the cast of The Nonpartisan League showed his true colors in the fall of 1914 when he was sent as an organizer for the Socialist party in Morton County. He promptly began his duties as laid down by the Socialist party and unknown to the executive committee induced a few Socialists to put up money enough to buy a Ford auto, explaining that he could cover the county quicker and better that way. Then as now Townley's great aim is to get the money.

## PROGRAMME AND PRESS

The initial programme of the League was as follows:

- State Terminal Elevators, Flour Mills, Stock Yards, Packing Houses, and Cold Storage Plants.
- State Hail Insurance.
- Single Tax on Farm Lands.
- State Inspection of Package and Grading.
- Rural Credit Banks operated at cost.

Organization proceeded apace for whatever may be Mr. Townley's merits and demerits, he at least has organizing ability of an unusual order\*. Hundreds of workers were collected, many of them Socialists imported from various parts of the United States. Members and subscriptions were secured without much difficulty, the programme of The

\*Mr. Townley also has personality and his methods appeal to the imagination of the people. In the last election campaign, for example, he toured the State in a high power airplane.

(The success in this connection appears to be attributable in part to the substantial amounts which were offered to contributors.)

Nonpartisan League finding ready favor in the eyes of the farmers. If cash was not immediately available the organizers accepted cheques, some of which are said to have been dated as much as two years ahead. For a time the affairs of the League were handled by Messrs Townley, A. C. Bowen, F. B. Wood, a Socialist farmer who appears to have supplied the initial organization expenses, D. C. Coates a radical from the State of Washington who was employed to manage the organization work, and William Lemke a lawyer of Fargo, N.D. Later the temporary organization was made permanent with Mr Townley as President, Mr Lemke, Vice President and Mr F. B. Wood a member of the executive committee of three.

Dues for membership in The Nonpartisan League were raised in the Summer of 1915 to \$8 per annum. In the Spring of 1916 a League convention was held at Fargo and a State ticket prepared. The Republican party was the dominant party in the State and Mr Townley and his associates were shrewd enough to see the advantage of working through the State Republican organization. The Republican party machinery was captured and the League's candidates were endorsed at the Republican State primaries, with the exception of the nominee for Treasurer who ran on the Democratic ticket. In the general election of 1916 all of the League candidates for State offices were elected with the exception of the candidate for Treasurer who was a Democrat and was defeated by the Republican nominee. Out of a membership of 112 in the North Dakota House of Representatives. The Nonpartisan League elected 80 of its own supporters while other members were favorable to the League programme. Of a Senate membership of 49 20 were Leaguers. The election gave to The Nonpartisan League control of the State offices and control also of the Legislative Assembly except for enactment of emergency measures which required a two-thirds majority.

With political power at last in his grasp, Mr Townley and his associates were not slow to develop their radical ideas. But it was first necessary to ensure the absolute support of League members. League candidates have been required in some instances at least to sign an "Assurance of Endorsement" by which they pledged themselves unqualifiedly to vote and work for those measures and legislative acts that are approved by a majority of the Members of the Legislature elected by the League and organized labor. In addition a secret caucus was instituted at the commencement of the 1917 session and most rigorous pledges are said to have been required from those permitted to attend. In this way any tendency towards independence was speedily checked and the so-called Big Five were secured in their control. Mr Townley was ruthless in dealing with opposition and through controlled newspapers or otherwise he has bitterly attacked and denounced even high officials who did not agree with him and said so. The President of the Society of Equity of North Dakota was among such victims.

Mr Townley has recognized from the first the value of publicity, and control of newspapers has been an essential part of the media apparatus of the dominating officials of The Nonpartisan League. The latter gradually have built up a formidable newspaper organization by which they can distribute their propaganda widely. In September 1915, Mr Townley, as head of The Nonpartisan League established The Nonpartisan Leader at Fargo, N.D. as the official organ of the League.

He also secured control of The Courier News, at Fargo. Both these papers were controlled by The Nonpartisan Publishing Company which was organized for the purpose by employees of Mr. Tunnley. The latter controls the financial affairs of the publishing concern. Of every two years membership fee of \$15 secured from the farmers \$5 was apportioned for a two years subscription to The Nonpartisan Leader although it should be noted the latter publication was privately owned and the members of the League had no financial interest in it. This method of securing subscriptions was a decidedly advantageous one for the newspaper. Subsequently the Publishers National Service Bureau was organized and through it Mr. Tunnley and his friends now control two daily and some fifty three local weekly newspapers in North Dakota and the aggregate circulation is large.

### REORGANIZED ON NATIONAL BASIS

After initial successes in North Dakota it was decided to reorganize the League on a national basis. Accordingly headquarters were transferred to St. Paul and later to Minneapolis and The Nonpartisan League became The National Nonpartisan League with which the several State organizations are affiliated. The official League newspaper was also moved to national headquarters and is now published under the name of The National Nonpartisan Leader. Membership dues two years have been increased to \$15 payable in cash or by post-dated cheque. The National Nonpartisan League now has organizations in 12 Western and Northwestern States. In addition to the newspapers controlled by Mr. Tunnley and his associates the Northwest Service Bureau which is another Tunnley organization controls a number of weekly newspapers in Minnesota. Thus too there is The Minnesota Daily Star which is said to be owned co-operatively by League farmers and labor men and which is a useful propaganda medium for the League. Official League newspapers are published in Montana and South Dakota as well.

The National Nonpartisan League like the original League in North Dakota is a political organization founded upon the theory that every where politics is used to enrich the business class, bankers, lawyers and middlemen, land sharks and speculators in the necessities of life. It aims to unite farmers and laborers politically on the strength of an appeal to class. While opponents charge that The National Nonpartisan League has as its objective the overthrow of Government and establishment of a socialist state modelled after the Soviet in Russia, officials of the League profess that they have no such ultimate goal and no political philosophy, that they are solely political pragmatists, experts, hunting in an effort to free the people from what they believe to be monopolistic controls. Even Mr. Tunnley's warmest friends admit that he is an agitator rather than a constructive statesman. The planks of The National Nonpartisan League at the present time are two in number.

1 **Government Ownership of Railways.** The League is, practically committed to the so-called Plumb plan under which the Government of the United States would take over the railways in exchange for bonds. The proposals of Mr. Plumb found some support but the experience of the United States with Government operation of rail transportation services during the war appears to have consolidated majority sentiment in that country overwhelmingly in favor of private ownership and operation.





between The Nonpartisan League and its opponents in North Dakota is being watched with much interest throughout the United States and Canada. The League's industrial programme has proved a sorry and costly failure apparently beyond hope of successful rehabilitation and the Administration has been largely discredited. It remains to be seen whether by some compromise complete disaster can be averted. But immeasurably more important than the fate of the organization known as The Nonpartisan League is that of the ideas which the League has sponsored and attempted to translate into practice. Already an attempt is being made to defend the radical programme and to attribute non-success entirely to political control and considerations of political expediency. It is not so easy, however, to apportion responsibility for a combination of unbusinesslike administration and unsound theories. Even if one can accept the charge that there has been dishonesty as well as incompetence in the conduct of The Nonpartisan League activities, the present situation in North Dakota is not due entirely to either or both of these causes. The programme of the League in part at least was fundamentally and inherently unsound and unsound and was formulated in disregard of the lessons of experience and the proved principles of political economy. Defective theories generally have as their proponents those who are incompetent as practical administrators, but it would be just as reasonable in case of a fire, to blame the human element alone and ignore the ideas as it would be to attribute the collapse of a storehouse solely to the weight of the contents and in no way to insufficient regard by the builders to proved principles of structural strength. Shortcomings in the part of those charged with the conduct of public affairs are not an exclusive monopoly of any state or nation. Under responsible government responsibility for continued faulty administration must rest with the elections. The question of competency or incompetency of public officers is of small importance as compared with the state of mind of the citizens generally. It is peculiar for an intelligent sound minded and high principled electorate to find itself misled and misled representatives, but if the citizens themselves have followed after strange economic gods it takes the chastisement of loss and suffering to turn them from the wrong way. Such appears to have been the situation in North Dakota. The strength of The Nonpartisan League in that State consisted mainly in the fact that a large majority of the voters accepted the ideas behind the League's industrial programme. Questionable as were the methods of some of the officials the greater evil was the approval given by the public to economic policies which inherently were unsound and dangerous.

## The "Industrial Programme" in North Dakota.

The ultimate object of the Nonpartisan League movement in North Dakota was declared to be the elimination of the profits of the machine-men through co-operation and public ownership of the means of production. In order to proceed with such a programmatic amendment of the State constitution, however, it was necessary to request of the State debt made it impossible to raise sufficient money in the credit of the State to meet such change. Accordingly, an amending measure was introduced under the leadership of Mr. Frazier and his associates. A certain was added to the Constitution of Dakota providing that the right of the State to any political interference thereof to engage in any enterprise or business for public purposes shall not be deemed to pre-include. The former constitution set the debt limit at \$2,000,000, the sum of the debt of the State at the time the constitution was adopted some 25 years before. In 1911, 1914 the State debt was \$4,740,000. The amendment fixed a limited \$4,000,000 sum and above the existing debt but provided that the Northern all parties business thereof may issue a guarantee the payment of bonds to extend the debt limit specified in the article provided such bonds are secured by first mortgage upon the available assets of public utilities, enterprises or industries. The constitutional provisions relative to taxation were amended to enable the Legislative Assembly to exempt any or all classes of personal property from taxation for taxation purposes, bondings and all other interests upon and with to be exempt personal property as determined by the request for the Legislature therein. In spite of the League efforts, the old constitution provided a effective remedy. The amendment gave to the Legislative Assembly the right to provide an exemption of such classes. The plans included the State amendments representing a large amount of money were actually passed by the old constitutional provisions. An amendment apparently contemplated the use of such bonds in financing the State industrial programme. Still another amendment prepared for the enactment of an average tax to provide mechanism against over-laboring by hand. It perhaps still represented that conservatism indicating the attitude and character of those responsible in treating the League programme was a change in the previous relation to machine action. The former constitution provided that persons whose religious tenets or conscientious scruples forbid them to bear arms shall not be compelled to do so on pain of fines but shall pay a equivalent for personal service. The second amendment changed the meaning and sense of the section by striking the words in some cases. The bill in amendment of the constitution was attached hitherto as amendments but a favorable majority was obtained in the House of Representatives. In the Senate the bill was defeated, on a vote of 25 to 28.

Despite failure to secure passage of the measure by the Legislative Assembly the League leaders had the privilege of appending to the election results. Accordingly, constitutional amendments embodying

all the essential provisions of the rejected bill but with certain modifications in response to objections raised in the Legislature were prepared submitted at the general election on November 3, 1918, and adopted by large popular majorities.\* The constitutional amendments so adopted on referendum in 1918 had the following effect:

Provision was made for a State tax on lands for the purpose of providing fire insurance.

Powers of the State court were changed by providing that no legislative enactment should be declared unconstitutional unless at least four of the five judges of the State should so decide.

Requirements relative to the initiative and referendum as applied to legislation were altered.

The constitutional restriction that taxes shall be levied and collected for public purposes only" was omitted.

The Legislature was empowered to exempt any or all classes of personal property from taxation and the purposes of taxation of personal property was defined to include all buildings and improvements.

Issuance of State bonds or a State guaranty of bonds was authorized with a limit so that all bonds in excess of \$2,000,000 must be secured by first mortgage upon real estate in amount not to exceed one half of its value of upon real and personal property of State owned utilities, enterprises or industries in amount not exceeding its value. A further limitation was to the effect that the State must not more of guaranty bonds upon property of State owned utilities, enterprises or industries in excess of \$10,000,000.

Authority was given for the State any county or city to make internal improvements or to engage in any industry, enterprise or business not prohibited by Article 20 of the constitution.

The Nonpartisan League was then in a position to launch its programme of economic reform.

## UNSOUND BANKING METHODS

Pending the revision of the State constitution to give the added powers desired, The Nonpartisan League was not idle. In the session of 1917 the Legislature enacted a series of no fewer than 33 laws and the League propagandists saw to it that the record was well advertised. There is perhaps some truth in the statement that North Dakota had lagged behind other States in respect of progressive legislation and that the new laws were needed to bring it abreast. Be this as it may, a number of measures enacted in 1917 probably were sane and safe enactments in the interests of the people. Unfortunately they cannot all be placed in this category. In the doubtful class may be mentioned the Guaranty of Bank Deposits Law, which appears to have been modelled after the legislation in South Dakota. While a Nonpartisan League Legislature actually passed such law, in the state's books the League cannot be held entirely or even principally responsible. The guaranty legislation was not initiated by the League and indeed the principle was endorsed officially at the annual meeting of the State Bankers' Association in July, 1916.

The measure as passed by the North Dakota Legislature in 1917 provided for creation of a Depositors Guaranty Fund Commission, consisting of the Governor of the State, the State Bank Examiner and three other members appointed by the Governor. Such Commission has administration of the Guaranty Fund which is made up as follows:

Every State bank is required to contribute one twentieth of one per cent of its average daily deposits during the preceding 12 months. A similar levy

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\*The average number of yes votes in 1918 on the constitutional amendments was 68,438, against an average of 23,314 no votes.

of new deposits of any size seem to be made annually and the total amount of money in the Liquidity Fund reaches one per cent of the average daily deposits.

The representative members of the Committee on Appropriations to which annual appropriations of \$100,000,000 of one per cent have been made think that such small appropriations may be made in any one year. After the Liquidity Fund is built up and the average daily deposits are in the amount of \$100,000,000, the Committee on Appropriations may be able to make a deposit of \$100,000,000 of one per cent against the balance of one per cent and pay out the money for any kind of job the United States Government might want to do and still have the money.

Members of the Committee must pass this money to the Representative Committee on Appropriations and finally reach the Treasury Department of the United States. It is reported that the Committee on Appropriations will be able to make a deposit of \$100,000,000 of one per cent against the balance of one per cent and pay out the money for any kind of job the United States Government might want to do and still have the money.

When a bank fails, members of the Committee of the House vote on the amount of money to be paid to the bank. The Committee on Appropriations will be able to make a deposit of \$100,000,000 of one per cent against the balance of one per cent and pay out the money for any kind of job the United States Government might want to do and still have the money.

It is the duty of the United States to protect the three representative members of the Committee from a suit of some kind. The United States Bankers Association has been asked to State Bank where the three representative members are located. The Committee on Appropriations will be able to make a deposit of \$100,000,000 of one per cent against the balance of one per cent and pay out the money for any kind of job the United States Government might want to do and still have the money.

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After the deposit for the State Bank has been made, including \$10 State Bank and 4 trust companies, the amount in December, 1919, Committee Fund deposits of \$100,000,000 against deposits totaling \$125,000,000. In his report for the year ending June 30, 1920, the State Bank has.

The Committee on Appropriations will be able to make a deposit of \$100,000,000 of one per cent against the balance of one per cent and pay out the money for any kind of job the United States Government might want to do and still have the money.

## MANY BANKS FORCED TO CLOSE

It is probably due to payments on account of the first mentioned failure that Committee Fund deposits on June 30, 1920, for 712 State Bank and 4 trust companies were reported at only \$77,014,711 com-

soderably less than half as much as on December 1, 1919) against deposits of \$121,670,017.50 or slightly more than one-twentieth of one percent. Recent banking happenings in the State and the fact that during recent months between 25 and 40 banks have been forced recall a statement by Mr. Langer months before there were signs of trouble.

When the small and medium-sized banks began to fail, as they have been doing steadily, then the depositors would be left with only the paid-up capital and one-half would see that \$25 or 30 banks become insolvent. That it would be state and local banks, however, would be large enough to pay up the depositors.

While it is expected that most of the banks in North Dakota which have been forced during the present difficult period will be re-opened, it seems almost certain that there will be considerable losses in reimbursement for which depositors will look to the Depositors Guaranty Fund. Even with the guarantee which is 20 or 25 per cent of the average fully deposited of all State banks, the Guaranty Fund could not be expected to provide more than 5 or 10 per centum, and such a guarantee probably would be sufficient to induce some to prompt re-incorporation of new banks under the latter class of State banks under national charter. The administration of the guaranty fund under the control of the state and bank interests will be watched with much interest. It was to meet just such conditions as these that the legislation was devised. But a Guaranty Fund which gives an unlimited amount of money does not pay depositors using reasonable judgment in determining between depositors for their funds, reduces all banks to a dead level in competition for deposits regardless whether their administration is sound or unsound, sound or unsound, and thus produces a breakdown in the mind of depositors against the proper development of any banking system. Moreover, it would force an unequal struggle to small depositors who, notwithstanding the actual insolventcies of the guaranty, in case of serious trouble as yet in good faith the fact of a Guaranty Fund is an affecting advantage, in state law and under its law funds deposited in any bank operating under State laws. The attitude of the banks to the Depositors Guaranty Fund would arise by the fact that since 1913 only three National banks in North Dakota have surrendered their Federal charters for the purpose of reorganizing as State banks, while during the same period no less than 62 State banks have either been converted to National banks or have been liquidated and succeeded by National banks. In each of the years 1915 and 1916 there were four such transfers of banking institutions from State to National charters, in 1917 only three while in each of the three years since that time there have been seven. It is apparent that the supposed protection to depositors in State banks under the Guaranty Fund has not been recognized by the National banks as an important advantage of which they should avail themselves by reorganizing under the banking laws of the State of North Dakota. Indeed it seems not improbable that after the present experience there will be a considerable number of transfers from State to Federal charters.

## LEAGUE'S INDUSTRIAL PROGRAMME

While various reform bills were enacted by the 1917 Legislature including numerous measures favorable or supposedly favorable to the

"The Fargo Forum, dated February 23, 1917, and is an editorial, "The State Treasury Fund cannot pay the demands upon it made of 10, 15 or even 20 years."

agriculturalists and to labor that session proved to be little more than a preliminary carrier preparatory to the more ambitious projects entered upon by the Legislature at the regular and special sessions in 1919. Enactment of the so-called industrial programme was dependent upon the constitutional amendments endorsed by the voters in 1918 and The Nonpartisan League leaders now proceeded to put their ideas into effect. Early in 1919 a bill was passed creating the Industrial Commission of the State of North Dakota such Commission consisting of three members: the Governor, Attorney General, and Commissioner of Agriculture and Labor, any two of whom would constitute a quorum. This Commission was empowered and directed to manage, operate, control and govern all utilities, industries, enterprises and business projects now or hereafter established, owned, undertaken or operated by the State of North Dakota except those carried on in penal, hospital or educational institutions. For this purpose it was vested with far reaching powers and provided with an appropriation of \$200,000. The Industrial Commission has been the managing of all the industrial activities of the State. Through it The Nonpartisan League with Mr. Townley at its head has exercised the most absolute control. When the Commission was appointed all three members were Leaguers. Mr. Langer who was Attorney General before the last election later broke with his former associates and has been active and violent in denunciation of The Nonpartisan League's leaders and all its works. But two members of the Industrial Commission constitute a quorum and the Governor and Commissioner of Agriculture and Labor were faithful to the League and its President so that the Commission's powers in no way were restricted or impaired.

The establishment and operation of State industries necessarily would call for large sums of money and Mr. Townley was shrewd enough to recognize the political dangers of excessive bond issues, the difficulties of selling such bonds and the limitations of the small unit banking system in North Dakota in regard to loans to State enterprises. But the latter must be financed. Then too there were the numerous private and semi-private undertakings of Mr. Townley and his associates the success of which also depended in large measure upon the availability of generous banking accommodation. Altogether from the point of view of the League officials a State bank seemed to be highly desirable if not absolutely indispensable to the carrying out of the industrial programme. Accordingly a bill which was passed by the Legislature and approved by the Governor in February 23, 1919 provided that "for the purpose of promoting agriculture, commerce and industry the State of North Dakota shall engage in the business of banking and for that purpose shall and does hereby establish a system of banking owned, controlled and operated by it. The Bank of North Dakota is upon a plane of central importance in relation to the industrial programme of The Nonpartisan League. It is the only official project of the League which has been developed to any large extent and it has been the crux of recent discussions as to the future activities of the League. Its operations will be reviewed in a separate chapter.

Although the Bank of North Dakota is the only item in the North Dakota industrial programme with which much progress has yet been made it is abundantly plain that the Bank was intended primarily as a means of carrying out far reaching plans of socialization, with the

avowed purpose of "freeing" the people of the State "from the control of the monopolies which have so long exploited them."

## DEFICITS AND DELAYS

The original programme of The Nonpartisan League called for State terminal elevators, flour mills, stockyards, packing houses and cold storage plants. That pledge has been implemented in the extent of a flour mill at Drake, N. D., with a capacity of 125 barrels per day and the partial construction of a \$1,000,000 or \$1,200,000 State mill and elevator at Grand Forks, N. D. In the regular session of 1919 the North Dakota Legislature enacted the North Dakota Mill and Elevator Bill, Section 1 of which provides that "for the purpose of developing agriculture and industries, the State of North Dakota shall engage in the business of manufacturing and marketing farm products and for that purpose shall establish a system of warehouses, elevators, flour mills, factories, plants, machinery, and equipments owned, controlled and operated by it under the name of the North Dakota Mill and Elevator Association. Such Association was organized by the Industrial Commission and is absolutely subject to that body. A bill was passed providing for the issuance of State bonds to the amount of \$5,000,000 for carrying out the purposes of the Act. As a result of a special mill levy collected under authority of the Legislative Assembly of 1913, the State already had a fund of more than \$150,000 and this was turned over to the Mill and Elevator Association. In addition, a direct appropriation of \$100,000 was made. On August 6, 1919, the Association purchased the small Drake mill at a cost of \$200,000, out of improvements subsequently made for included a \$24,000. While possibly a benefit to the farmers is the immediate loan to the Drake mill in the absence of great population in the grain situation. Loans through represent more than 40 per cent of the wheat produced despite loans made by Nonpartisan League though there is no conclusive evidence that it has effected any general improvement in the price paid to the farmers of the State for grain or in the position which flour has been sold to the consumer. On the other hand no claims have been charged against the State mill interest or the investment has not appeared to have been considered as an item of expense and part of the overhead expenses have been paid from the legislative appropriation and not charged against the revenue of the mill. Allegations of mismanagement have been made repeatedly against the management of the State mill and the State Auditor was denied permission to examine the accounts of the mill on which which it is now originated from League officials. The Industrial Commission recently made public a report in which a loss of \$1,668,217 in December 31, 1920 in connection with the Drake mill, was admitted. A profit was claimed in July 1920 and the deficit since that time was attributed largely to the decline in the prices of grain. The greater part of the loss, stated as 500,000 bushels of flour which went to the Consumers United Sales Company, Inc. which was organized under the auspices of The Nonpartisan League but with private capital and under private control. The probability of additional losses on account of flour still in the hands of consumers is considered. During the calendar year 1920 the State mill manufactured 2,150 barrels of flour using wheat which cost \$2.00 per bushel. This means that it handled in 1920 only about the equivalent of 7 per cent of the North Dakota grain crop of 1919. In December 1919 the mill had on hand



or on order sacks costing approximately \$17,000 about 1 1/2 years' supply. This large quantity apparently had been purchased when prices were about at their peak and the Industrial Commission's report states "When the bottom fell out of the cotton market the price of sacks collapsed and a decline of approximately 40 per cent was sustained."

In order to obtain the State mill and elevator for their municipality citizens of Grand Forks subscribed for State bonds to the amount of \$800,000 to provide a small part of the cost of construction but the work has been financed to its present stage principally by loans from The Bank of North Dakota. The plans call for a mill of 3,000 barrels per day capacity consisting of two 1,000 barrel Spring wheat units and one 1,000-barrel macaroni unit and for modern facilities for cleaning, washing, drying, storing and shipping. The Grand Forks construction has been advertised as the first big unit of the State system of elevators and mills. The contract was awarded on April 20 and the plant was to be in readiness to begin operations by November 1, 1920. It is still only a little more than half finished and lack of funds has recently compelled a complete suspension of work. The expenditure to date is in excess of \$800,000. The State Mill and Elevator Association is indebted to The Bank of North Dakota to the amount of approximately \$650,000 and on December 31, 1920, had a cash balance on hand of only \$10.

## HOME BUILDING PROGRAMME

The Home Building Association of North Dakota is another interesting creation of the Legislative Assembly and like the other State industrial boards, is under complete control of the Industrial Commission. Any person may open a home buying account with The Home Building Association and it is declared that "special effort shall be made to secure deposits from children, young people, renters and wage earners, in order that more people may own their own homes." Such deposits bear interest at a rate determined by the Industrial Commission and may be withdrawn upon six months notice. Ten or more depositors in The Home Building Association may form themselves into a local Home Buyers League subject to rules of the Industrial Commission. No person may become a member of a Home Buyers League without the written consent of all the other members. Whenever a member of a Home Buyers League shall have deposited with The Home Building Association a sum equal to 20 per cent of the total selling price of a home of any home the Association is required upon his application, to purchase or build a home for him taking a cash payment of 20 per cent and a mortgage on the property for the balance. Such mortgages are to be issued on an amortization plan providing for complete payment in not less than 10 years and not more than 20 years except that payments may be extended under special circumstances. The Act provides that no home shall be built, purchased or sold at a price to exceed \$5,000, except in case of a farm home the selling price of which shall not exceed \$10,000. The Association is required to "make a specialty of building standard homes and other buildings and equipments" and the Industrial Commission is empowered to "acquire suitable tracts of land by purchase or by exercise of the right of eminent domain, and to subdivide such land into lots and lay out streets, sidewalks, parks and gardens therein and build homes on said lots, as provided for herein and supply them with water, light and heat." A section of the

Act provides that "each member of every Home Builders League shall be jointly and severally liable for all contracts, debts, and obligations due the Association from his League to the extent of 15 per cent of the price at which his house was sold to him. All funds of the Association must be deposited in The Bank of North Dakota and disbursed through it."

The Legislature authorized the issuance of bonds to an amount not exceeding \$2,000,000 to provide for the financing of The Home Building Association project such bonds to be secured by mortgages assigned to the Association. To defray the expenses of organizing The Home Building Association and to conduct its business until funds could be sold and deposits received and contracts made with applicants, the Legislature appropriated \$100,000. At the end of 1920 the Association had purchased and sold 4 homes, completed 26, and had 26 others in various stages of construction. Most of the houses have been sold at 1 to 15 per cent although it is understood that they include one \$14,000 house for Mr. William Lender, State Attorney General. Homes built under contract from by the Association had cost \$278,152.25 at the end of the last calendar year. Prior to January 1, 1920 administrative expenses were not included in the construction cost but it has been the practice since that time to include such expenses. Materials on hand on December 31, 1920 at cost price plus freight were valued at \$20,728.50. An audit report made recently at the instance of the Independent stated that the Association had no "retention". As all homes are required to be built and sold at actual cost there is no profit or loss statement but with falling prices of materials seems not improvable. The Association is indebted to The Bank of North Dakota in the amount of \$26,000 and at the end of the year had a cash balance of only \$5.22. The home building enterprise has brought no general advantage or improvement to the people of North Dakota. On the other hand it has tied up current money in long term loans on security which may or may not prove sufficient. Moreover with the price situation uncertain there may be immediate losses to be borne by the State.

Under the Hail Insurance Act a tax of three cents per acre is assessed upon each and every acre of taxable land in the State in addition to which flat acreage tax, an indemnity acreage tax sufficient to meet all losses and defray expenses of management but not exceeding in any one year 30 cents per acre is levied on all actually cultivated and cropped land except hay and meadow land not withdrawn from operation of the Act. Any owner may withdraw his land from the benefits of the Act and escape payment of the indemnity tax but the land is still subject to the flat acreage charge. The maximum indemnity payable under the Act is \$7.00 per acre and no indemnity is allowed for a loss of less than 10 per cent. The Legislature appropriated \$100,000 to put the Hail Insurance Law into effect. The three per cent acreage tax has placed a burden of more than \$200,000 upon lands not insured for the benefit of those who take advantage of the indemnity insurance. Former State Auditor Boonstrey has charged the Hail Insurance Department with inefficiency, alleging that double payments had been made as well as payments in cases where there was no insurance and that "hundreds of persons are charged with a hail tax who had withdrawn

\*Auditors have stated that the Home Building Association's accounts are grossly misstated and its reports substandard in reflecting the actual condition of the Association.

from the lost insurance." Losses under the Act are incurred during July. The adjusted claim has to await payment out of the same year's tax which is due December 1 and delinquent on March 1 following. Payment on account of claims is commenced therefore about January, or six months after the loss is incurred. The average interval is considerably longer and some approved claims on account of losses in 1919 were still unpaid on January 1, 1921.

## WORKMEN'S COMPENSATION ACT

The Workmen's Compensation Act is a measure for which The Nonpartisan League takes much credit. The law applies to any employment in which one or more employees are regularly employed in the same business or in or about the same establishment except agriculture and domestic service. The Workmen's Compensation Bureau was created and a scale of disability compensations provided. The fund out of which such compensations are made is provided by annual payments by all employers subject to the law at rates prescribed by the Bureau and based upon a schedule of employments with regard to the degree of hazard. The Bureau is required ultimately to fix and maintain for each class of occupations the lowest possible rates of premium consistent with the payments and the expenditures of the Bureau and maintenance of a solvent company and fund and the creation and maintenance of a reasonable surplus after the payment of legitimate claims for injury and death. Initially, the Bureau is to fix the rates of premiums sufficiently high to provide for the payment of the expenses of the Bureau, the payment of compensation according to the schedules established by this Act and for the maintenance of adequate reserves and surplus by the North Dakota Workmen's Compensation Fund, to the end that such fund may be kept at all times in an entirely solvent condition. Ten per cent of the monies paid into the fund must be set aside for the creation of a surplus and such surplus shall amount to \$50,000 after which time 5 per cent of receipts must be credited to surplus until such time as, in the judgment of the Bureau such surplus shall be sufficiently large to guarantee the Workmen's Compensation Fund from year to year."

The following reference to the State Workmen's Compensation Fund is found in "The North Dakota Industrial Programme," a publication issued by the Industrial Commission and is typical of the anti-business propaganda of The Nonpartisan League:

While the cost of administration for the first year will be higher than for the years after the department is fully organized, the Commissionery confidently expects that the expenses for the first year will be far below those incurred by private companies. After the first year the Bureau expects to administer the fund at an expense of or not to exceed 10 per cent of the earned premiums of the fund, which is one quarter of the expense rate of liability insurance companies. This reduction in cost is made possible by elimination of the depreciation of assets of interest to twenty-five or thirty hundred dollars formerly paid by private companies; the business private officers for getting business for the payment of large amounts; the upkeep of luxurious offices; and for the payment of the dividends that have to be earned for the stockholders of private companies."

Collections for the first year that the Act was in operation exceeded disbursements by some \$500,000 and the latter amount was left in the hands of the Bureau without legal accountability and without even the safeguard of examination of the Bureau's books by the State Auditor.

It has been freely charged that such money was used to further the political aims of The Nonpartisan League.

Criticism of a workmen's compensation law on a scientific basis and administered equitably, efficiently and economically probably would find little support in modern society. Indeed it does not appear to be the principle of the North Dakota legislation to which objection is taken, but many employers complain bitterly that they are charged rates several times as high as those formerly charged by private companies and that the effective benefits are not so great. It is alleged also that the Act is administered inefficiently and that enormous premiums have been levied out of proper proportion to hazards in different employments with the professed intention of building up a large surplus. An Anti Trusting Republican State Convention held at Minot N.D. in May 1920 included in its Washington Platform a statement that The Nonpartisan League had enacted a workmen's compensation law and rules for its administration which take from employers of the State hundreds of thousands of dollars in excess of all legitimate requirements and which do not bear equally upon employers in accordance with the rules. The meeting favored amendment to remedy such defect. Chief Justice Robinson of the State Supreme Court in a recent letter to the press was referring to the Workmen's Compensation legislation when he wrote: "And on certain business industries for accident insurance of employees there has been levied a tax of nearly a million dollars a year a sum ten times the amount necessary to pay the insurance. In that way many have been driven out of business and out of the State. And what is that but simple robbery in the guise of taxation." Another critic has said: "a law that collects a fee of \$1.43 for protection in the same kind of hazard as a neighboring state turns out at a cost of 10 cents is certainly in need of material revision." The former State Auditor was denied permission to audit the State Workmen's Compensation Fund and there has been general dissatisfaction among employers with the administration of the Act.

## STATE INSURANCE AND OTHER MEASURES

The Insurance of Public Buildings Act provides compulsory State insurance for property of counties, cities, towns, villages and school districts. Officers or agents having charge of any public buildings are prohibited from taking out fire or tornado insurance for such property except through the State. If at any time sufficient funds are not available in the State Fire and Tornado Fund to cover any loss or damage from these agencies provision is made for payment from the State treasury. The initial rate chargeable is the average rate charged by responsible fire and tornado insurance companies doing business in the State of North Dakota and insuring policies on similar properties. Provision is made for a lowering of rates if and when the State Fire and Tornado Fund shall equal 10 per cent of the risks carried. The State Insurance Department is not permitted to insure any single risk in amount greater than \$100,000 but must reinsure any excess over that amount. In much the same way that public property is insured the State provides for compulsory bonding of officers of the State and its political subdivisions, payment from public works of premiums for bonding other than payments into the State Bonding Fund have been made illegal.

In addition to the measures already referred to, the Nonpartisan League Legislature passed various other laws which are interesting and

perhaps significant in character. Under Chapter 187 of the Laws of 1919 provision was made for the designation of county and municipal "official" newspapers in each county in the State. At the outset the "official" newspapers 53 in all were appointed under the Act with provision for their election thereafter at the general elections. It was required that all summonses, notices, orders and other process in court actions, notices of foreclosure or statements of banks and other corporations, publication of which is required by law, must be published in the local "official" newspaper. The State Legislature would of course have control of State advertising patronage but that legislation practically gave to the State Government an exceedingly important power in the designation of "official" newspapers. In view of the value of such "official" status on account of the advertising revenue derived therefrom. Despite the advantage and opportunity to consolidate their position which appointment as "official" newspapers gave to papers which were friendly to the League, during the eighteen months before the last general election, publications endorsed by The Nonpartisan League and in some instances believed to be controlled by officials of the League were defeated last November in one third of the several paper elections. This fact affords striking evidence of the loss by the League of prestige and popular support. At the same time the election endorsed an initiated law which relieved private individuals of the necessity of advertising in the "official" newspapers. The original newspaper law is typical of the methods by which The Nonpartisan League has controlled the policies of the State and the channels of publicity and propaganda. This regulation of advertising is of special interest in view of the chain of newspapers in which Mr. Jewell and a few of his associates have a controlling interest through the Publishers' National Service Bureau.\* In this connection a publication issued by the Independent Voters Association says:

"Never before in the history of the United States have a few hundred men, who have banded themselves together in a business venture for personal profit and satisfaction, been able to get a majority of the voters of a State to approve a law that would give them a monopoly on the most important sources of revenue for that particular business."

Two other measures which were endorsed by the League and passed by the Legislature but debated when referred to the voters, are deserving of consideration. The first of these has become known as the "Smelling Committee Bill" which was adopted by the Legislature and approved by the Governor in December 1919. It provided for a committee of five members, two members of the Senate to be named by the presiding officer of that body and three representatives of the House to be named by the Speaker, for investigating conspiracies and conduct against law and order and government in North Dakota. This Committee was directed and authorized "to examine and investigate on the written complaint of any person or in its own initiative as a Committee, any department or public officer of this State and all acts, efforts, attempts, transactions, proceedings and conspiracies to destroy or injure the property, reputation, freedom, rights or business of any person, corporation, association, company or group of persons in the State of North Dakota or any of the industries, enterprises, or utilities owned by the State of North Dakota or the credit of the State of North

\* See pages 11-12.

Dakota." The bill provided that "The Committee, or its duly authorized agent or agents, shall at all reasonable times have access to, for the purpose of examination, and the right to copy any documentary evidence of any person, firm, association, corporation, or any officer of the State of North Dakota, being investigated or proceeded against, and the Committee shall have power to require, by subpoena the attendance and testimony of witnesses, and the production of such documentary evidence relating to any matter under investigation." Any member of the Committee was to be authorized to sign subpoenas, administer oaths and affirmations, examine witnesses and receive evidence. Under the bill, \$25,000 was to be turned over to the Committee to be expended on orders signed by the Chairman and approved by the Committee, no provision being made for vouchers or audit. The measure was viewed by the opponents of the League as a means of intimidation and the bill was defeated on referendum in the primary elections in June, 1920.

Opponents of The Nonpartisan League also professed to see a sinister purpose behind the State Sheriff Bill of 1919. Under this measure a State Sheriff was to be appointed by the Governor and given power to employ special agents. Moreover, he was placed in control of the county sheriffs and deputy sheriffs, who by the Act were constituted a State constabulary with the State Sheriff as the head. This bill, which also was defeated on referendum, may have been quite harmless but this much is plain that The Nonpartisan League from the time it attained power has added steadily to the number of State employees and filled many of the more desirable offices within its control by appointment of its friends and especially of persons who had had Socialist affiliations and in some cases had been actively connected with the Socialist party. It has been estimated that some 600 "new jobs" have been created since The Nonpartisan League secured political control of the State.

## The Bank of North Dakota

In establishing a State bank the Nonpartisan League Legislature of North Dakota ignored the lessons which the unhappy experience of other States and other countries should have taught. No fewer than 16 States of the Union have experimented at one time or another in State banking with sorry results and today North Dakota is the only State in the banking business. It is unfortunate in some respects that the lapse of time should obscure the teachings of experience; it is apparent that those who drafted the bill to create The Bank of North Dakota were familiar with the banking experiments of other States, inasmuch as certain sections of The Bank of North Dakota Act were apparently modelled after such earlier legislation. In almost every case, State banks in the United States have developed no political institutions and in some instances political action has been accompanied by fraud, defalcations, heavy losses to taxpayers and sometimes to depositors, serious impairment of State credit and repudiation of State bonds. In some of the States the entry of the Government into the banking field was no disastrous and deplorable that after the debacle State constitutions were amended to prohibit State ownership of or financial interest in any banking institution. The people of Missouri, for example, after experimenting in State banking amended their constitution to provide that "no State bank shall hereafter be created, nor shall the State own or be liable for any stock in any corporation or joint stock company, or association for banking purposes now created or hereafter to be created."

The banking field has a strange attraction for the "Reformer" but probably to a realization of the importance of banking in relation to public welfare and prosperity. Yet this importance makes all the more dangerous Government interference in a business where private enterprise has demonstrated efficiency and integrity and into which all experience shows the State cannot enter without subordinating sound business administration to considerations of political advantage or party expediency. The Bank of North Dakota is a new institution in which perhaps all the evils of State ownership and operation have not yet had time fully to develop yet developments during the nineteen months that the Bank has been in operation and especially charges made under oath before investigating committees of the Legislature\* and the Independent's audit of the Bank which was made possible by passage at the last election of an enabling initiated measure have furnished startling evidence of entangling alliances, diversion of public deposits to finance State industries and direct or indirect use of deposits to assist the private or semi-private ventures of officials of The Nonpartisan

\*The Manager of The Bank of North Dakota recently initiated a charge of perjury against Mr. W. Benson formerly Mr. Lowrey's personal representative. A previous charge against Mr. Benson of criminal theft was made months ago, but has not been brought to trial despite the fact that he accused has repudiated his allegations through his own newspaper and recently has challenged arrest and prosecution. His statements have not been disproved and his story stands on about thirty sworn affidavits given under oath before the investigating committee of the North Dakota House of Representatives.





except that it may make loans to any individual association or private enterprise, now secured by duly recorded first mortgages on real estate in the State of North Dakota, in amounts not to exceed one half the value of the security so secured by such loans are guaranteed by the Industrial Commission or by any licensed warehouse within the State in amounts not to exceed ninety per cent of the value of commodities deposited therein. It shall not, however, loan on real estate security more than thirty per cent of its capital. In addition, loans made shall insure payment of all deposits. Additional funds that may be required for such real estate loans shall be procured from the sale of State bonds as may be provided by law.

10. A mortgage loan on real estate must provide for repayment on an amortization plan with annual payments sufficient to cover (1) a charge on the loan at a rate not exceeding the interest rate in the last series of real estate bond bonds sold by the State of North Dakota; (2) a charge for Johnson's National and Savings Bank at a rate not exceeding 1 and one per cent on the unpaid principal and interest; and (3) a charge, covering the interest rate on the mortgage, and all such amounts to be applied on the principal as well as to prepay the debt when the loan term or more than thirty years. In case of default, which is failure by mortgagee to make the payments on one half all payments under the mortgage made in the discretion of the Industrial Commission be extended for one year. The Bank of North Dakota is authorized to sell and assign all real estate mortgages when it is and the Manager of the Bank may choose such either with or without reserve. The Act provides that "after completion of such mortgage system of payments for a single period when the total amount due is not more than one hundred and fifty dollars in fraction thereof during which such mortgage has to run after date of assignment. In other words, the Industrial Commission upon the payment of interest payments on mortgages even after such mortgages have been sold and assigned to a third party.

11. The State Bank Examiner is required to verify the assets of The Bank of North Dakota once annually and report the results of such examination and investigation to the Industrial Commission as soon as practicable and to the Legislature Assembly at its next ensuing session.

The Legislative Assembly appropriated out of the general funds of the State \$100,000 for the purposes of the Act with the provision that the Industrial Commission should out of the earnings of the Bank, arrange to replace in the general funds of the State the amount so received. The capital of The Bank of North Dakota consists solely of bonds of the State of North Dakota in the sum of \$2,000,000. No new money has ever been put into the Bank as account of capital. The institution was started by opening an account debiting Bonds to the amount of \$2,000,000 and crediting Capital on the same amount\*. The State is responsible for payments of principal and interest on such bonds but the Industrial Commission is required to pay to the State Treasurer out of the earnings of The Bank of North Dakota "such moneys as the Commission shall deem available to devote to the paying of such bonds and interest."

## RURAL CREDITS ARGUMENTS AND PLANS

It has already been stated that the original programme of The Non-partisan League or Non-Partisan Political Organization League of North Dakota as it was called at the outset included Rural Credit Banks operated at cost. When they attained political power and were faced with the problem of implementing the pledge implied in their platform the League leaders decided to delegate this function to The Bank of North Dakota. Accordingly a bill was enacted providing that whenever The Bank of North Dakota should hold first mortgages on

\*Recent evidence shows that up to December 2, 1921 The Bank of North Dakota had actually sold \$48,500 of such bonds.

real estate, securing unpaid mortgage loans in the sum of \$100,000 or more, the Industrial Commission could cause such mortgages to be assigned to the State Treasurer as security for State bonds which the Treasurer was authorized to issue in an amount not exceeding the amount of the outstanding loans secured by the mortgages delivered to, and in possession of the State Treasurer as above provided. An initial limit of \$10,000,000 was put upon the amount of bonds to be issued in this way. The bonds so issued must be turned over to the Industrial Commission for sale at not less than par value for cash, and the proceeds placed in the funds of The Bank of North Dakota. The Bank was expressly authorized to purchase any such bonds with any funds in its possession. Such was the League's rural credits plan. The Bank of North Dakota was to make loans on first mortgages on real estate; these mortgages were to be assigned to the State as security for State bonds, and the latter were to be sold to procure funds with which to replace money used by The Bank of North Dakota to make loans. The bonds were obligations of the State of North Dakota in respect of both principal and interest, with the additional security of the real estate mortgages as collateral.

A circular issued by The Bank of North Dakota, explaining its organization, purposes, and progress, stated that the lack of compact communities made extremely difficult co-operation for buying and selling or for financing farming operations, that under these conditions private interests sometimes have taken advantage of the needs of the people to keep down the prices of farm products and exorbitantly to advance the prices of the things the farmers had to buy and the rates of interest for farm loans. That after trying various remedies the majority of the people of the State arrived at the conclusion that the only permanent remedy lay in State ownership and control of marketing and crediting facilities—at least in the extent necessary to stabilize market conditions and prices and the rate of interest on loans. That so believing they elected in 1918 a State Governor pledged to provide State mills and elevators and a State system of credit, and that The Bank of North Dakota is the institution that was created to serve the latter purpose, and that such Bank is designed to finance the other parts of the State industrial system, as well as to serve the needs of the people for credit for the carrying on of their principal industry and the business activities dependent upon it.

A statement issued on February 2, 1920, signed by the Director-General of the Bank, declared that

All the energies of the people, their faith and integrity, and all their immense natural wealth are back of The Bank of North Dakota; the tangible resources of the State alone guaranteeing deposits in The Bank of North Dakota may be conservatively estimated at six billions of dollars. With the exception of the Federal Reserve System there will be no larger financial institution in the land."

The Director-General added:

The Bank of North Dakota will need all of its resources to protect the real values of property to finance the handling of the immense crops, and in general adequately to care for the growing industries of the State. It will need the support and cooperation of all the people as well as of all banks and financial institutions of the State. On its part The Bank of North Dakota does not propose to enter into competition with existing banks or to supplant any part of the existing financial system, but to cooperate with them, to assist in their development, and to co-ordinate all parts of the financial service of the State so as best to meet the needs of the people in the carrying on of their business and industry."

On August 16, 1920, the Director-General said:

It would seem that bankers would do well to give careful consideration not only to the future but to the wisdom of their opposition to The Bank of North Dakota. That the Bank has the power to protect itself has been already demonstrated. Consideration of banks on the part of the bankers may necessitate a change of the policy of the Bank such as the payment of interest deposits or that the State together with such other arrangements as will enable the Bank to reach the people needing financial assistance through agencies whose co-operation can be depended upon.

## UNABLE TO SELL STATE BONDS

It has already been stated that the capital of The Bank of North Dakota consists of State bonds in the amount of \$2,000,000. Efforts to market these securities during the past year and a half or longer have been unsuccessful. Although Nonpartisan League officials and supporters blame the opposition for this difficulty, it is claimed that arrangements had been practically completed for the sale of the bonds when suit was instituted challenging the validity of the laws providing for use of the taxing power in the establishing of state industries in competition with private enterprises. Answer is made to this that the Supreme Court gave judgment in June, 1920, holding the laws in question to be constitutional but despite such decision no bonds have been sold since that time, regardless of the undoubtedly good security of the State.\* The Bank succeeded in borrowing \$1,000,000 as a short term loan from the Merchants Loan and Trust Company of Chicago, on hypothecation of State bonds in the amount of \$1,200,000. The loan is due on March 15, 1921.

The provision in The Bank of North Dakota Act for compulsory deposit with that institution of all public funds aroused much opposition and criticism. Formerly officers charged with the administration of public funds deposited them in local banks which paid interest therefor at rates which were decided by agreement in each case. Sometimes deposits were obtained by the banks without interest but conditional upon the banks attesting warrants of the depositors during seasons when the latter were out of funds pending receipts of taxes or other revenues. The local banks in turn were able to forecast approximately the amount of public funds which would be in deposit during each season of the year and to make loans accordingly. The Bank of North Dakota legislation, however, entirely changed this system. The State institution opened for business on July 26, 1919. On July 7 the Director-General, acting under a resolution of the Industrial Commission, issued an order that all State, county, township, municipal and school district funds, and funds of all penal, educational and industrial institutions and all other public funds be deposited in The Bank of North Dakota pursuant to provisions of the Act by the persons having legal control of such funds on the respective dates scheduled in the order.

The interest rate on all deposits of public funds was arbitrarily fixed at 2 per cent on daily balances and 4 per cent on time deposits (sinking funds). It is said that the local banks formerly paid up to 8 per cent for such money and public corporations in some instances actually have been losing considerable in interest by reason of the com-

\*As the time the above was written it was not known that The Bank of North Dakota had disposed of \$400,000 of bonds up to December 3, 1920. The amount is, however, so small as to be almost negligible in relation to the Bank's requirements.

pulmonary legislation requiring their funds to be placed with The Bank of North Dakota at the lower rate. The Bank management has taken credit for thus establishing a uniform interest rate and has pointed out that the smallest and most isolated school district, however insignificant the amount of its funds, receives exactly the same rate of interest as the largest and richest municipality. One may reasonably question, however, the equity of a policy which establishes the same rate for the large funds of a wealthy public corporation, which always maintains a substantial balance and an account which may be fairly steady throughout the year, as for the comparatively insignificant deposits of a small municipality or school district which has only seasonal funds. The Bank of North Dakota has admitted that there was some loss of interest to the depositors under the new order. An official bulletin issued on January 16, 1920, said:

The Bank is paying interest on these funds at just about the average rate that the public corporations over the State received before. The Bank of North Dakota was organized. It is true that some public corporations received a higher rate of interest than the Bank now pays, but many received less and some never have received any interest on their funds. Through a questionnaire sent to banks throughout the State it has been ascertained that the average rate paid on public funds was close to two per cent. As that is the rate now paid by The Bank of North Dakota, there is, on the average, no appreciable loss to the public corporations.

## ARBITRARY INTEREST RATES FIXED

Assured of all funds of the State and of political subdivisions of the State at 2 per cent. interest cost, the Industrial Commission fixed for The Bank of North Dakota rates of 4 per cent. to be charged on daily balances of redeposits and 6 per cent. on time deposits, thus leaving to the State Bank a margin of 2 per cent. to cover the cost of handling and provide a profit on the transactions. It is charged by opponents of the Bank that this 2 per cent. margin on public funds has been responsible principally for the profit which the Bank claims to have made.

In Bulletin No. 8 of The Bank of North Dakota issued August 15, 1920 the following statement appeared:

Public funds received from any locality are redeposited in banks within that locality to the extent of the local needs thereof, but where it is apparent that there is sufficient or an excess of money in the local bank of any district to meet the current needs of industry and business funds deposited from such districts may be redeposited in banks in other localities where there is a greater need for money.

In so far as public funds have been merely redeposited in banks of the localities in which they originate there does not appear to have been sufficient justification for the two per cent. margin, either public corporations have not been receiving as large a return from The Bank of North Dakota as they could have obtained from local banks for direct deposits or the banks have been obliged by reason of the higher cost of money to them, to charge higher rates on loans to their customers. There may have been some offset, however, inasmuch as The Bank of North Dakota claims to have been able to maintain such redeposits on a somewhat more stable basis than would have been possible if the money were deposited directly. This has been possible by using money from districts where deposits have been heavy, to provide, or maintain, redeposits in other localities at times when deposits from the latter localities were seasonably light. Indeed, it would appear that some

institution such as The Bank of North Dakota if divorced from political control and influence, could serve a useful purpose by saving the State to some extent from the disadvantages of the system of small independent, local banks. In Canada under the branch banking system surplus funds, savings, etc., from one district are made available for loans in other sections. Money is highly "mobile" in the Dominion and quickly responsive to legitimate demands for loans. Savings, for example from the industrial districts are used in large measure for crop moving purposes. The branch banking system in this way makes capital much more fluid and distributes funds in proportion to the need for them. Under the unit banking system capital necessarily is less fluid and local funds to a much greater extent have to be used locally because of the sheer lack of organization for loaning them elsewhere. Before the establishment of The Bank of North Dakota, the State banks in North Dakota transferred any surplus funds to banks in the larger centres principally Minneapolis, St. Paul and Chicago. The banks in these places loaned considerable money to correspondent institutions in North Dakota but, in the absence of control such as the parent Canadian branches have over their branches, the organization was far from providing that ready flow of available funds which is a feature of the Canadian banking system.

## GRAVE CRITICISMS OF LEAGUE ACTIVITIES

It is difficult to form an exact judgment as to whether The Bank of North Dakota actually performed any real service by making surplus funds from one district available for loans where the latter were in greater demand\*. Opponents charge that redeposits in The Bank of North Dakota have been influenced largely by political pull. It is alleged moreover that control of redeposits of State funds has been used by League officials as a lever to secure redemptions of the paper of private or semi-private projects, evidence which will be quoted in the pages following would seem to prove that there is considerable loan for the charges. It is apparent too that control of redeposits has been employed by The Bank of North Dakota to some extent to force the use of that institution as a reserve depository. Under an "Order" issued July 3, 1919 The Bank of North Dakota invited the deposit of a portion of the reserves of all State and National banks and other financial institutions within the State on and after July 12 of that year. The order continued:

Deposits to be made by banks in North Dakota with The Bank of North Dakota are to be entirely voluntary, but should be presumed to be proportionate to the discount or other facilities which will be asked for its depository banks and should be along the line of such reciprocal relations as will best serve the financial interests of the whole State and of all its financial institutions.

In November 1920 an amended law was passed relieving public corporations other than the State itself from legal obligation to deposit public funds in the State Bank. In an endeavour to retain such deposits the Bank increased the interest rates payable by it on balances. A circular issued on November 16, 1920, to treasurers and governing boards of public corporations announced that "the enactment of the recently initiated laws places The Bank of North Dakota where it

\*On the contrary evidence indicates that deposits from some of the poorer districts were loans to "friendly" banks in other sections and used indirectly in part at least to finance League or semi-League objects.

now must to some extent enter the competitive field with the State and National banks in the State. The letter continued:

Heretofore the Bank has placed money with State and National banks at rates of interest at which such banks could afford to do much in their normal communities at a profit. The Bank has charged 4 per cent on its deposits in banks and 3 per cent on its deposits in loan banks. It appears now that The Bank of North Dakota must change its policy and that it is no longer bound to limit its deposits to 4 per cent on its deposits in banks and 3 per cent on its deposits in loan banks. It is in position to increase its interest on deposits. Furthermore it appears that the operations of the Bank as to interest rates paid during its operation of year did not satisfy the group of members of the Bankers' Association and there appears to be a demand for the Bank to pay a larger rate of interest both that it is entering upon the second year of its operation.

Accordingly, the Bank advanced the interest payable by it on deposits from the uniform rate of 2 per cent on demand deposits and 4 per cent on sinking funds to a sliding scale. The new rates effective from December 1, 1921, were as follows:

On checking or demand deposits over \$100,000, Treasury, on which the balance is not permitted to fall below \$200 during the month, 2 per cent.

On such deposits which do not fall below \$200, 2 1/2 per cent.

On such deposits which do not fall below \$200, 3 per cent.

On sinking funds remaining on deposit more than three months and less than one year, 4 per cent.

On sinking funds remaining on deposit one year or more, 4 1/2 per cent, computed and increased semi-annually on January 1 and July 1.

On sinking funds remaining on deposit less than three months or on sinking funds withdrawn after the new annual interest date the same as on demand deposits or like amount.

The change would appear to be an indirect admission that the former uniform rate irrespective of the amount of the deposit or the minimum balance held was not entirely fair or in accordance with business principles. The increase in rates has been of practically no effect in retaining public funds. Seasonal requirements have been responsible for some withdrawals but these by no means explain the sorry situation which has developed.

The prohibition by the election of the initiated law removing public treasurers except the State Treasurer from legal compulsion to deposit in The Bank of North Dakota all public funds under their control threatened the State Bank with loss of a considerable part of its deposits and placed upon it the necessity of making up for such loss from other sources. Renewed efforts have been made to dispose of State of North Dakota bonds in the money markets of the Eastern States but without success. League officials have declared that if bond underwriters refuse to buy the bonds the State would attempt to sell them to the ultimate investors and literature has been distributed within the past few months urging citizens to invest their savings in State of North Dakota bonds in order to assist in financing State industries. Bonds are being offered in denominations as low as \$25 and the literature soliciting subscriptions from the citizens of North Dakota including the workers of the State contains unsupported and almost hysterical allegations that certain interests are robbing both the farmer and the consumer and blocking the regular financial channels so that the State cannot reach the great class of investors, those who work and save and want to put their savings in enterprises that will better the conditions of all the people. The latest advice is to the effect that the State Bank will compete with the private banking institutions for deposits by individuals or other private interests. It is said that the Bank proposes to solicit private deposits through the agency of friendly private banks one or

more in each county, which would be authorized to accept deposits on behalf of the State bank the same interest rates being paid on such deposits as are now paid on public funds. If this course be adopted there appears to be scant prospect of success until the present tangle is unravelled.

The Nonpartisan League has made much of the fact that before the establishment of The Bank of North Dakota the banks carried their principal reserves outside the State either in the Trust Co. of Chicago. It was represented that such practice was paying into the hands of Big Business and the Money Trust and that the interests of the people of the State were injured. It came somewhat as a shock then, to some of the League supporters to learn that The Bank of North Dakota in April 1920, had more than \$10,000,000 on deposit outside the State. This suggestion of possible graft as the explanation of placing and holding of such large deposits outside the State have been made only at least by responsible persons in Bismarck and Fargo, but there does not appear to be any proof of wrongdoing in this connection nor does any need to be assumed. Inasmuch as The Bank of North Dakota is a reserve institution it is under very great responsibility to keep a large proportion of its resources in liquid form. Obviously, the Bank could not deposit this money in banks in the State and depend upon the judgment of some 700 local State banking institutions to keep their resources in such a liquid form that deposits could be withdrawn as required without causing serious inconvenience and perhaps disaster. There can be little doubt that The Bank of North Dakota has shown good sense in keeping substantial deposits outside the State in institutions from which the money can be obtained when required and that criticism of the Bank's policy in this connection is unwarranted. It must be remembered that the local banks to a large extent are making loans to agriculturists which are by no means as liquid as commercial loans by banks in metropolitan areas. Following criticism of its policy of making deposits outside the State of North Dakota, the Bank commenced last August to report as a separate item in its monthly statements money due from correspondent banks outside the State. The amount under this heading is now very small and indeed if any criticism ought to be made of the policy of the Bank in keeping money on deposit outside of the Bank it is that too little rather than too much was so held as a liquid reserve against demand obligations.

## STATE BANK STATEMENT

The Bank of North Dakota issues a condensed statement of its condition on the fifteenth day of every month and the latest such statement that of February 15, 1921 is as follows:

### RESOURCES.

Bonds, United States, State and County	\$1,846,751.35
Loans to Banks	2,464,861.36
Loans and Warehouse Receipts	70,594.90
Loans to Public Institutions and Departments	1,185,000.00
Loans on Real Estate	2,842,035.92
Interest Earned (net) and Uncollected	185,345.05
Furniture and Fixtures	52,029.09
Due from The Depository Banks in North Dakota (Redeemable)	4,929,845.43
Due from Correspondent Banks outside of North Dakota	104,919.26
Cash Items due from Banks in the State	351,304.97
Cash Items due from the State and Public Corporations	30,324.01
Cash on Hand and Cash Items	49,865.12

Total Resources

\$14,134,917.48

# LIABILITIES

Capital	\$ 2,000,000 00
Surplus	40,000 00
Reserve to Repay Legislative Appropriation	24,108 87
Reserve for Depreciation on Furniture and Fixtures	10,343 02
Net Profits, 1920	121,443 17
Net Profits, 1921	3,098 54
Appraisal Fees	5,513 73
Individual Deposits	243,156 56
Public Deposits, Sinking Funds	3,793,796 07
Public Deposits, General and other Funds, State Treasurer	2,441,975 21
Public Deposits, General and other Funds, County and Township and School Treasurers	3,821,835 15
Due to Depository Banks, reserve	759,379 00
Collection Items	42,877 16
Bills Payable	1,000,000 00
Total Liabilities	\$14,224,915 48

The above statement requires little explanation. The first item on the Resources side consists for the most part of the State bonds which were issued to provide capital for the Bank but are still unsold. The item "Loans to Public Institutions and Departments" includes \$295,000 in loans to the State Home Building Association secured by 20-year amortized real estate mortgages, and about \$850,000 loaned to the State Mill and Elevator Association on account of the construction of the State mill and elevator at Grand Forks. Loans on real estate are reported at \$2,882,035 92 and reveal the extent to which the State bank has met the demand for rural credits. These loans are on 40-year amortized farm mortgages.\* There is good authority for the statement that approximately 90 per cent of the amount was used to pay off existing loans held outside the State so that the Bank's activities in the rural credit field have resulted principally in sending out of the State between two and three millions of dollars of tax funds to discharge mortgages previously held by private interests. This money cannot be replaced except by sale of long term bonds and such sale the Bank has not been able to effect in any important amount.

The February report of the State Bank showed "individual deposits" to the amount of \$243,156 56, the origin of which was not stated. The Bank has not solicited deposits from the public heretofore and the item may refer to certain labor unions' funds. Some time ago a resolution was discussed by the Chicago Federation of Labor proposing that the Federation recommend to its constituent organizations that union funds on deposit in private banks be withdrawn and deposited in The Bank.

\*Rule No. 3, issued by The Bank of North Dakota to applicants for real estate loans, provides:

"Loans will be made for 40 years, to be payable on a 7 per cent basis (interest to be 6 per cent). The payment of 7 per cent of the original amount of the loan will be required annually as an annual installment on the loan. The 7 per cent annual installment is sufficient to pay the interest at 6 per cent on the unpaid principal, and to pay an amount sufficient to retire the principal of the loan in 34 years. Any installments remaining unpaid at the end of the 30th year are to be included with the 30th annual installment so that the loan will be retired in 40 years.

"Under this amortization plan \$213.60 will have to be paid at the end of the 30th year for every \$1,000 of principal, or more than one-fourth of the entire principal of each loan, provided all previous installments shall have been paid when maturing, and no extension of time granted as permitted at the discretion of the Bank in case of crop failure.



of North Dakota but such action appears to have been deferred. The League newspapers have advised farmers and workers to adopt the settled policy of keeping their money exclusively in their own banks. Public funds on deposit in the Bank on February 15, 1921 amounted to \$9,967,579.43 as compared with \$13,579,477.70 on January 16, 1920 and with a maximum of \$25,295,479.40 on March 15, 1920 after the close of the tax collector's part of it. Since the indicated law became effective on December 2, ordering the public treasurers of all minor subdivisions of the State from counties down to townships and school districts the option of depositing their funds in The Bank of North Dakota or else where, the State Bank has lost heavily in public deposits. Withdrawals from January 15 to February 15, 1921 reduced deposits by \$1,710,221.54 despite the restrictions imposed by the Bank. Public treasurers throughout the State including many who heretofore were adherents of The Nonpartisan League have been seeking to recover the monies from the State and they and very few have made new deposits. Indeed so heavy are the withdrawals because that the Industrial Commission adopted a resolution directing the Bank to refuse to honor checks drawn by treasurers who have other funds anywhere available. The Administration now attempts to put without success to force local treasurers to deposit in The Bank of North Dakota by threatening to terminate safety bond protection through the State Bonding Fund to public officials who placed public funds in private banks.

## UNABLE TO MEET OBLIGATIONS

The Fargo Forum in its issue of February 12, 1921 summarized the North Dakota financial situation with particular reference to the State Bank, as follows:

State finance is in an almost hopeless condition. The Bank has established a rule that because State banks and private banks are liable for the maintenance of the State when liable and a financial institution and their institutions have been warned to make their expenditures as small as possible.

The State when it has found has found that the Department is unable to liquidate its other debts with the bank, it is in a position to pay in the Bank of North Dakota. The Bank is not in a position to meet demands upon it because of the fact that the State has been unable to pay its bills.

The State has been unable to pay its bills because of the fact that the Bank of North Dakota has not been able to pay its bills. The State has been unable to pay its bills because of the fact that the Bank of North Dakota has not been able to pay its bills. The State has been unable to pay its bills because of the fact that the Bank of North Dakota has not been able to pay its bills.

Banks throughout the State that have been doing business with The Bank of North Dakota are being threatened with destruction if they fail to meet promptly the demand made upon them by the State Bank. Collections are being despatched to banks throughout the State to force immediate compliance with the State Bank's demands, or close their doors.

Counties of course have turned to school districts in fact the finances of all political subdivisions of the State have reached a state of chaos. Many political subdivisions have large sums tied up in the State Bank on which they are unable to raise or at their own and it has become necessary for local banks to finance the official business of their communities.

The Bank itself is unable to pay its own debts and dealt for \$50,000 given by it to a Bismarck bank to cover clearance items in the Bismarck Clearing House Association was not paid for a week after its maturity. The State Bank has been eliminated from membership in the Bismarck Clearing House Association.

\*State taxes in North Dakota are due December 1 and become delinquent if not paid by March 1 of the following year.

It has rendered North Dakota warrants issued by post office inspectors at the State practically without market value as has led to the out of government a considerable sum, the money expended at the Bank not being an equivalent return. But for a prompt cash payment equivalent to that of the State and not evident in the State for reasons of high interest demanded for the sale and other reasons.

Several days after the same newspaper said: "Almost anything in the form of a public statement is wanted as to much confidence in the State. These days. Payment has been declined on many subsequent drafts, including what deposits. The State has more \$2,442,000 in deposits in the Bank, but payment has been refused on State deposits which have been marked and paid for each of which. In at least one case payment of a \$10,000 loan which was returned. The City of Fargo had \$10,000 on deposit in the Bank of North Dakota and a check for \$10,000 was returned containing funds and interest drawn by the City on February 11 was returned five days after marked and paid. When making the report deposits except at various branches. The Bank of North Dakota has been under a very high degree of investigation of private banks. In order to protect themselves many companies and other organizations of the State have purchased deposits of The Bank of North Dakota in such banks. The same time last year the State has been a complete loss reached the situation might become steadily worse. Among farmers have been distressed during the past three months but most of them have been buying for money in local private banks and in many cases the State's share has been limited in part at least by the loss claim against such balances as the situation may have been known with The Bank of North Dakota. In this interest was deposit balances in the State Bank are being liquidated. School districts and townships also have serious difficulties of the situation chosen to pay them a cheque drawn on The Bank of North Dakota. A dispatch from Harrington, N. D., dated February 21, 1921, said:

A large money loan received by Idaho county a very desirable bank of the county. The money was received by the approval of the bank of the county and its situation. The other four banks in the county are now in such a shape as The Bank of North Dakota will be forced to receive. Several and township for their share of funds. Information of \$10,000 of existing funds have been provided for request by The Bank of North Dakota.

Unquestionably The Bank of North Dakota is doing everything to regain an effectively solvent position but the significant part of the situation are that the institution today is unable immediately to meet its demand obligation and as a dependable source of future it has proved a failure.

The practical insolvency of The Bank of North Dakota has caused a serious breakdown of the State loan insurance system. More than \$7,000,000 was collected in taxes from farmers to pay loans granted in 1919 and this amount was deposited in The Bank of North Dakota. Banks throughout the State have purchased from their customers had insurance warrants issued by the State Treasurer and expected to be able to cash them when the tax receipts were available. The predicament of some of the small local banks is indicated by the following extract from a letter written by a bank at Hamlet in The Bank of North Dakota:

We cannot comply. We have not the ability money to spare. If you will wait until our loan warrants are paid we can pay you as we can in that shape. But before that we can do nothing. We have \$10,000 of the above warrants and with interest in date will pay us \$14,000 and we have only \$25,000 in payable in please do not crowd us and we will have a good shape. We have covered the worst and if we can have patience and the warrants are cashed we will be fine and dandy."

## DEMAND FOR PUBLIC AUDIT REFUSED

Officials of The Nonpartisan League deny that the State Bank is insolvent. What they mean is that the assets of the institution are sufficient ultimately to pay all claims without loss. They attempt to explain the present situation by saying that private bankers have over-extended credit and are unable to repay the State Bank some \$3,000,000 of demand obligations on account of redempcots. But surely it is a new theory of finance that a treasurer of public funds liable to immediate repayment on demand shall be held not responsible to be so loath to those funds that he cannot withdraw them on call. The action of the State Bank last year in keeping large deposits outside the State was an admission that the judgment of the seven hundred local State banks could not be depended upon to keep their loans in liquid form so as to ensure prompt repayment on demand. It is claimed that the Bank has made a net profit in February 15, 1921 of \$1,297,917.11 after putting \$400,000 in surplus account. This appears to be upon the assumption that the institution will realize the full par value of all outstanding loans and redempcots. The report of the Industrial Commission says in this connection:

The redempcots in State banks are secured by the Guaranty Fund with its joint interest also by the financial worth of the bank itself and by the double liability of its stockholders. While it is possible that the Guaranty Fund may not be a disinterestedly insured all its redempcots claims against the Guaranty Fund with 5 per cent interest from the time that the amount is ascertained. And surely the rate is nearly as high as the highest rate charged by The Bank of North Dakota it would seem that the claims against the Guaranty Fund are adequately secured.

Redempcots in National banks are secured by indemnity bonds and are expected to bear 7 per cent interest until paid.

The former State Auditor who was defeated in the 1920 elections, was denied permission to examine the affairs of The Bank of North Dakota. He instituted legal action but the Supreme Court of the State held that the examination of The Bank of North Dakota was not a part of the duties of the State Auditor. In the November, 1920 elections, a proposed law initiated by the Anti League voters and requiring that the State Board of Auditors shall semi-annually examine the accounts, books, vouchers, and funds and ascertain the assets and liabilities of all industrial institutions and make public the results of such examination, was endorsed by the voters, became effective December 2 and an examination has been made of The Bank of North Dakota as of December 1, 1920. The audit report showed that:

A. (A) \$2,407,643.26 loaned to banks, no less than \$1,147,607.25 was past due on December 3.

B. (A) \$105,722 loaned to elevators, packing companies, and individuals upon warehouse receipts and storage tickets \$69,122 was past due.

C. The State Mill and Elevator Association, Home Building Association and Industrial Commission were indebted to the Bank in the amount of \$822,716.72.

D. Out of a total of \$33,074 due to the Bank as first payments on farm loans to December 3, no less than \$18,353 remained unpaid on that date.

E. All the farm loans negotiated by the Bank the total to December 3 was \$2,599,069 -were made from capital and current funds of the Bank.

F. The Scandinavian American Bank, of Fargo, had liabilities to The Bank of North Dakota of \$228,974.71, redeposits, \$178,823.51, loans \$25,000 unpaid drafts, and \$11,329, cash items or cash letters. This total of \$444,127.42 was partially offset by a reserve deposit with the State Bank of only \$10,108.28. The combined capital and reserve of the Fargo institution amounted to only \$90,000.

G. Eight other banking institutions in Fargo with combined capital and surplus of \$1,542,000, had liabilities to The Bank of North Dakota totalling only \$110,519.86, which was offset by reserve deposits in the State Bank of \$44,801.57. In other words, the Scandinavian American Bank (capital and surplus \$60,000) had a net liability to the State Bank of \$44,019.14 while the eight other Fargo banks (combined capital and surplus \$1,542,000) had net liabilities to the State Bank aggregating only \$58,718.29.

H. At least 35 banks had liabilities to The Bank of North Dakota in excess of the total of their capital and surplus and reserve deposit with the State Bank.

I. In the Donnybrook State Bank, which had been closed before the audit was made, The Bank of North Dakota had outstanding redeposits to the amount of \$72,534.31 and loans \$21,000. This liability of \$93,534.31 was offset by reserve deposits of \$779.50. The Donnybrook bank's combined capital and surplus was only \$38,400.

J. The Security State Bank, at Deering with capital of \$15,000 and surplus \$5,000 had liabilities of \$57,574.46 to the State Bank while the Deering State Bank with capital and surplus of \$30,000, had a liability to The Bank of North Dakota of only \$8,205.71 redeposits.

K. Of approximately \$13,000,000 outstanding as advances from the State institution to all the banks, no less than \$2,652,286.49 was represented by advances to 39 banks. About one fifth or all the public money loaned or deposited by The Bank of North Dakota in the private banks was in less than one-eighteenth of the banks which were doing business with the State Bank.

L. Public money on deposit by The Bank of North Dakota with closed banks on December 3 totalled \$419,473.27 while the combined capital and surplus of such banks was only \$581,100.

## PRESENT BANK SITUATION

The report appeared to show that certain banks, with some of which prominent supporters of the League were associated, had been especially favored in respect of redeposits and advances. There can be little question that the general situation was known to the State Bank Examiner. There is no reason to doubt his personal integrity but his position was a most difficult one. He was a candidate for election as Treasurer of North Dakota in 1916 on the Socialist ticket and was appointed to his present office by the Governor of the State. He is a supporter of the Nonpartisan League Government, with which his own interests have been intimately related. The former Attorney General of the State has referred to him in a recent issue as "a protector of first class crooks."

A second audit was submitted to the Legislature on February 1, in the form of a report from the Industrial Commission. The latter admitted that out of \$2,732,813.63 in bills receivable by the State Bank, payment of more than one-half was past due, but this situation was

explained as due in part to deliberate policy in carrying paper past due instead of renewing, on account of financial conditions in the State. It was claimed that the paper was well secured and that the unpaid portion in effect represented demand assets. The affairs of The Bank of North Dakota and the State industries and departments have been under review of an Audit Committee of the House of Representatives and a similar Committee of the Senate and considerable information has been adduced. As in February 15, 1921, the situation appeared to be approximately as follows:

**Current trust money used by The Bank of North Dakota for loans to State industries or departments or for 30 year loans on real estate and now represented by "frozen" assets**

Loans to State Mill and Elevator Association approximately	\$850,000
Loans to State Homebuilding Association	285,000
Loans on Real Estate	2,882,036
	--
	\$4,017,036
To the above amount ought to be added--	
Redeposits in insolvent banks, about	\$725,000
Loans to banks now insolvent, about	500,000
	--
	\$5,242,036

The State Bank is making some progress in its efforts to liquidate its assets. Loans to banks were reduced from \$2,607,418 03 on January 15 to \$2,464,041 18 on February 15. Redeposits in solvent banks were reduced by approximately \$1,200,000 in the month, while The Bank of North Dakota released demand deposits by public subdivisions of the State in the amount of a little more than \$1,000,000 while the State Treasurer's demand deposits in the Bank were reduced by more than \$500,000. The outgo of money is apparently more than offsetting the receipts of current funds by withdrawals of redeposits, liquidation of loans, etc. The State Bank apparently has been making every effort to provide current funds with which to pay off the Chicago loan of \$1,000,000, due on March 15. If The Bank of North Dakota should default in payment, and if the Chicago institution should exercise its right to sell at any price obtainable the North Dakota State bonds hypothecated as security for such loan, the credit of the State would suffer still more, and the opponents of the Nonpartisan League would gain a powerful campaign argument.

## **BANK FAILURES NUMEROUS**

A conference of members of the North Dakota Bankers' Association was held November 30, 1920, to consider ways and means of relieving the banking situation in the State, the situation having become exceedingly serious and failures numerous. Such conference appointed a special committee to meet with officials of the Government on December 7, 1920. On the date mentioned, a mass meeting of bankers and State officials was held at Bismarck at the invitation of the State Administration. At this session representatives of the Administration set forth that, owing to the adoption of the initiated law permitting deposit of funds of counties, townships, school districts, cities and villages in banks other

than The Bank of North Dakota, unusual and heavy withdrawals were being made upon the latter, compelling it to make, in turn, unusually heavy withdrawals from banks in which it had redeposited such funds that these local banks were unable to respond and that much distress was and would be occasioned as a result of this situation. The meeting adopted resolutions recommending that public treasurers make withdrawals from The Bank of North Dakota only to meet current expenses and that they co-operate with officials of The Bank of North Dakota in arranging for the withdrawal of such local funds in an orderly manner and with the least possible disturbance to the finances of the State. At the same time the Administration asked for the co-operation of the bankers in effecting the sale of State bonds in substantially the following amounts:

Farm Mortgage Bonds	\$3,000,000
Bank of North Dakota Bonds	2,000,000
Mill and Elevator Bonds	2,000,000
Home Building Bonds	250,000

There was obvious necessity for the sale of at least a large part of such bonds, in order to replace current public funds which The Bank of North Dakota had placed in long time or permanent investments, and a resolution was adopted pledging the members of the North Dakota Bankers' Association to aid in efforts to dispose of the securities. A joint committee of bankers and representatives of the State was appointed to aid in carrying out the resolutions.

At the meeting of the North Dakota Bankers' Association on December 14, 1920, another committee was appointed to confer and co-operate with the joint committee appointed on December 7. Then followed a series of conferences the results of which have been summarized by the committee itself as follows:

"On the main point, viz. the sale of State bonds, your committee investigated every potential market negotiated with many bond buyers and determined, according to the best opinion and judgment of its members, that such bonds could be sold at this time and at substantially the rate provided for by the Industrial Commission as well as the conditions under which these sales could now be made."

## BANK LIMITATIONS DEMANDED

On January 5, 1921, the Bankers' Association committee attended a conference at Fargo, at the invitation of the Director-General of The Bank of North Dakota. A preliminary conference disclosed that the Industrial Commission had no plan to propose and had no prospective sale of State bonds under consideration. The committee of the North Dakota Bankers' Association then submitted a definite proposal. The committee prefaced its offer with a summary of the situation, pointing out that the most important and immediate question seemed to be the sale of State bonds that the bankers of the State had earnestly endeavored to assist in the sale of such bonds, but so far without success, and that the State Administration had also been unable to dispose of these securities. The committee stated, however, that it had "ascertained the conditions under which these bonds could now be sold by them." With those conditions before them the bankers offered to undertake to sell \$3,000,000 of farm loan bonds, as well as the balance of the \$10,000,000 authorized as reasonably needed and as the market would







After expressing appreciation of the interest shown by the committee of the Bankers' Association, the Commissioner said:

The proposal on bankers' control heretofore has been considered by the Commissioner but he views this as a plain attempt on the part of the financial interests, presently a Wall Street finance, to dictate the public finance and industrial policies of the State of North Dakota, and regarding a new order of the sovereignty powers of the State's management, a new alliance and a new order of distribution and interference with the independence and character of the people of a sovereign State. The time has now not yet come when any group or group of men have powerful financial resources available in this State from its management in any alliance. Every State in the Union is guaranteed a republican form of government under our constitution. The officers of the State even though elected by the people have no authority to surrender its sovereignty. Rights once surrendered are seldom or never regained. We are satisfied that any group of men who would surrender such a surrender and acquiesce in the transfer of the prerogative of making the laws for the people of the State would only work a financial fraud.

The banks of North Dakota are and will be sold without a surrender or compromise of the nation.

We are positive that in the near future with proper legislation these banks will fail. There is no better security anywhere in the United States. Many men of influence and wealth outside of the State are working to complete the purchase of these banks, not as soon as the present financial emergency passes.

Although the bankers' offer was rejected by the Administration, it is reported that Mr. Lowmeyer himself favored purchasing The Bank of North Dakota in order to avert complete disaster to The Nonpartisan League organization and programme. Apparently Mr. Lowmeyer failed to secure immediate acceptance of his views by the League caucus but he is said eventually to have convinced a majority of his associates that some compromise was also lately imperative. According to negotiators, were satisfied with bankers of the Twin Cities and conferences were held at Minneapolis between representatives of the North Dakota Administration, The Nonpartisan League and bankers of North Dakota and Minneapolis and St. Paul. Mr. Lowmeyer claimed that he was in a position to make effective any arrangement upon which the conference might agree but financial houses of Minneapolis and Chicago were unwilling to undertake the sale of the State's banks. Such unwillingness has been attributed to doubts as to the validity of the bond issues and the fact that the bonds already have been offered in Chicago and New York by irresponsible individuals and have been discredited among investors. Negotiations have been suspended but evidence is not lacking that officials of The Nonpartisan League have come to realize the seriousness of the situation and would make important concessions. There now appear to be two factions within the League itself, one of which is headed by Mr. Lowmeyer and is willing to go far in compromise and the other with Mr. Leach as leader which is reported to oppose any concessions. Nevertheless the advances which have been made would seem to indicate an admission that The Bank of North Dakota must be liquidated and reconstituted if at all, simply as a credit institution. Chief Justice J. J. Robinson, Presiding Officer of the State Supreme Court, in a letter published on February 24, 1921, referred to The Bank of North Dakota as follows:

On one shop of State there is a money junkie, the State Bank. There is now a mighty trumpet in the air, and the shop is likely to be broken down, junkie to throw outward. This same junkie without any means of his own, has posed as a banker and gotten out his coffers of the public moneys from every county and corner of the state. He has got a large part of the money into long term loans on land and state buildings, mills and elsewhere. Now the depositors demand their money and there is no payment. Junkie is several millions short and he will neither fish out his net nor go ashore, as the chances are

he will have to be thrown into the sea. Fortunately in the State Treasury department there appears to be a tame whale, with capacity sufficient to swallow and ingest the Jonah.

## GAMING ON GRAIN PRICES

The most pertinent critic of The Bank of North Dakota does not contend that it has been mostly or even principally responsible for the large number of bank failures which have occurred in that State in recent months.<sup>1</sup> In certain sections of North Dakota there has been a succession of crop failures covering the last three or four years. Heavy losses have therefore been necessary and many of the banks have continued to carry the farmers in the hope that a good crop would relieve their difficulties. The sharp decline in the market price of grain has made it extremely difficult to collect on farmers' notes; many of the agriculturists appear to have refused to sell their grain at low prices in order to pay off their indebtedness and the local banks have not been in a position to force the required measure of liquidation. Indeed local banks in many cases supported the agriculturists in their selling strike with the result that resources were reduced and some of the banks closed their doors because of unwillingness or inability to force liquidation or negotiation with possible loss to the farmers. The propaganda of The Nonpartisan League was properly to blame in considerable measure for the difficulties which have developed. About the time that the 1920 wheat crop was threshed the local price of first grade wheat in North Dakota was about \$2.60 per bushel. The Nonpartisan League organization through Dr. Lind who is now United States Senator elect officially advised its members to hold their wheat for \$3.00 per bushel. Thousands of farmers throughout the State acted upon this advice and many of them are holding their wheat yet. By so doing they have incurred a loss of one third valuing their wheat at present quotations.

Even The Bank of North Dakota through its official bulletins has persuaded the farmer that the lower prices of grain were not due to natural causes but to artificial manipulation by the commercial and banking interests and the result has been to stiffen the farmers' determination to hold their grain in expectation of higher prices. In many cases the holding of grain has involved inability to pay maturing or overdue debts and has been a factor of large importance in determining the finances of the State and the banking situation generally.<sup>2</sup> This

<sup>1</sup>On January 17 the State Bank Examiner reported that 29 State Banks in North Dakota had been closed since the present difficulties commenced since that date additional banks have closed bringing the number on March 1 to between 35 and 40.

<sup>2</sup>The Fargo Forum, issue of February 24, 1921, said editorially: "Early in Fall when wheat was selling for considerably more than \$2 a bushel Dr. F. F. Lind, Mr. William Lemke and Mr. J. A. McManis began a campaign to induce farmers to hold for higher prices. The Bank Examiner of F. F. Lind has now advised that he persuaded the majority of the banks of the State to deposit loan reserves in order that farmers might be persuaded to hold their grain."

<sup>3</sup>In other words the farmers were persuaded and encouraged by the Bank Examiner to violate the banking laws and good banking practice in order to protect farmers to follow the silly advice of these three parties and.

If the bankers had been forced to advance the banking laws then as they should have been they would have called upon the farmers for a partial liquidation of loans. They would have forced the farmers to sell a part of their stocks of wheat and they would have required them to do so at a better price than they are getting now.

And now when the farmer is done the Bank Examiner acting under orders from the name Mr. Lemke is proceeding to enforce the sale of wheat, the redemption of loans and the redemption of the bank reserves. Farmers who were advised to hold their wheat at \$2.50 and \$2.60 a bushel, are now being forced to sell at the \$1.40

costly experience illustrates the instability of a political organization solely to advise on broad economic questions and the danger of relying on advice of such character. General extravagance has not been without its effect also and in many instances money appears to have been borrowed for what are now useless expenditures. The Bank of North Dakota methodically has compensated the difficulties by mobilizing saved public funds, normally on deposit in the local banks, and converting a part of such funds into fixed investments. Withdrawal of public deposits from The Bank of North Dakota added the other extreme withdrawal redeposits from local banks and ultimately has much disturbed the banking situation. On February 1, 1921 deposits by The Bank of North Dakota in depository banks within the State amounted to \$1,029,045.44 as compared with \$6,204,266.67 in January 1, 1921 and \$10,645,782.21 in August 14, 1920. Part of such withdrawals have been due to purely seasonal causes. The principal cause of withdrawal of the League has been the Depositors' Guaranty Fund regulation which appears to have tended to encourage reckless banking throughout the State and in some cases recent bank failures have been due to irregularities of various kinds. Besides the reduction programme of the Non-partisan League Affairs Division has made outside agencies of investment in North Dakota and has resulted in the unconstitutional pulling of the State's funds from financial panic stricken Minneapolis. But while the bank failures in North Dakota have brought that State out publicly it must not be thought that North Dakota alone has experienced banking difficulties. Banks have been closed in Iowa, southern Minnesota, Oklahoma and elsewhere by reason of conditions not entirely dissimilar to those in North Dakota of the influence of The Bank of North Dakota be left out of the reckoning. Even the Eastern States have not escaped disaster. Five banking institutions in Boston alone have been closed within the past five months.

The Bank of North Dakota is not a member of the Federal Reserve System of the United States. An unofficial inquiry was made as to what would be the attitude of the Federal Reserve Board towards an application for membership and the answer has been obtained that an unofficial reply was given to the effect that the Bank was regarded as a State Banking Department rather than as a banking institution and as such was not eligible for membership. Indeed The Bank of North Dakota on at least one occasion in its publicity has run foul of The Federal Reserve Bank of Minneapolis. The Director General of The Bank of North Dakota in his bulletin of September 14, 1920 said:

But it appears that the conception had more emphasis on the big financial centers held of the problem of financing. In crop movements does not reach down to the farmer as all. In fact, the money supplied by the Federal Reserve Board, and approved by trading interests and financial circles is apparently a loan to help on the farmers of credit on would grow. The purpose being to compel them to sell and to pay up the loans they made at the beginning of the growing season, so as to release the money for use in crop moving from the local elevators abroad.

In justification of the position of the Federal Reserve Bank for the North District located at Minneapolis, Governor Young showed that the Federal Reserve Bank and the commercial banks of the Twin Cities had outstanding loans to North Dakota to an aggregate of \$21,482,000.52, whereas reserves of North Dakota banks on deposit in the Twin Cities banks amounted to only \$11,438,249.94. In other words, the banking

institutions of Minneapolis and St. Paul instead of withholding reasonable credit from North Dakota actually were lending in that State almost three times the amount of money gathered from North Dakota as deposits.

## NO SUBSTANTIAL BENEFITS FROM BANK

It is difficult to find any substantial benefits to offset the harmful effects of operation of the State Bank. The claim has been made that entry of The Bank of North Dakota into the mortgage loan field has resulted in keeping interest rates lower than they would have been otherwise. But real estate loans by the State Bank are considerably less than \$1,000,000 and the Bank itself is authority for the statement that outstanding farm mortgages in North Dakota have been conservatively estimated at \$22,000,000<sup>1</sup> so that the real estate loans by The Bank of North Dakota represent only an insignificant proportion of the total. In this connection however and in connection with the Bank, it must be recognized that the situation has been handicapped from the outset by inability to sell the bonds which constitute its capital. Even the small amount of loans that have been made have been severely criticized as largely representing accommodation to political favorites and supporters of The Nonpartisan League, some of them made in the State. Under an estimated amount adequacy by the committee in November, 1920, loans by The Bank of North Dakota on real estate mortgages heretofore must be limited to actual farmers resident in the State.

In summary of the history of The Bank of North Dakota it is fair to say that that institution was created on practically a whole string basis in the sense that its capital consists solely of State bonds which have been unsalable; that from the outset it has been impossible that it has failed so far to provide any important amount of credit for agriculturists; that its profits for the most part have been designed by subsequent legislation giving into possession of the Bank a low arbitrarily fixed interest rate on all loans and paid deposits which deposits in part have been included in a considerable situation over the rate paid by the State Bank; that it has failed as a source of loans under emergency conditions and today is considered to lagged by the same standards as are applied to private financial institutions; that in short it has so interfered with the previously existing banking system as to weaken the latter and indirectly has been responsible in part for the deplorable banking situation of North Dakota at the present time; and that already it has been deprived of the monopoly right to hold all public funds and to a very large extent has been incriminated as a central depository and otherwise. The State Administration may yet be forced to reorganize the Bank and use it principally as a means of providing a rural credits service somewhat similar to that of North Dakota. Certainly the Bank cannot continue to function as intended system and until sale of a substantial amount of State bonds be effected. The Bank itself probably more than any other factor in the North Dakota situation is the stumbling block in the way of rehabilitation of the credit of the State.

<sup>1</sup>Wicks estimates by League representatives put the total as high as \$20,000,000.

The monthly bulletin issued by The Bank of North Dakota contains much propaganda material concerning the general policies of The Nonpartisan League. Indeed, it has been charged, has certain persons on the payroll of The Bank of North Dakota have been actively campaigning in the interests of the League.

## Semi-private enterprises and projects under the auspices of The Nonpartisan League

Enterprises in which Mr. Towner or his associates and friends have a part and in some instances at least a controlling interest appear to be so closely interrelated with the activities of The Nonpartisan League and with some of the State undertakings that it is difficult to differentiate exactly between those projects which are official and those which in their financial aspects are merely the private ventures of Mr. Towner and some of his supporters.

It appears that even before The Bank of North Dakota was organized Mr. Towner was involved in banking ventures on account of himself and certain of his friends. This statement is definitely indicated by recent evidence which has not been disclosed. Mr. J. J. Hastings who was Mr. Towner's financial secretary and Mr. Thomas Allen Row, Secretary of the Council of Defense of North Dakota, who was another of Mr. Towner's associates, had organized banks at a number of points in the State. Investigation by the State Banking Board of North Dakota showed that Messrs. Hastings and Row, operating under the name of the Federal Development Company, organized the American Exchange Bank of Valley City under State banking laws, the stock being sold to the farmers. Mr. Hastings has stated that it was arranged that Mr. Towner, through representatives, would control 50 per cent of the stock of such Bank. It was planned for the new American Exchange Bank to join with the American National Bank at Valley City. A deputy bank examiner reported favorably on the deal and the State Bank Examiner was satisfied. But the Secretary of State and the Attorney General, both anti-League elective officials and who constituted a majority of the State Banking Board were suspicious. The junior deputy bank examiner was sent to investigate and his report showed that

1. Messrs. Hastings, Row and associates, the promoters of the American Exchange Bank had secured a controlling interest in the American National Bank.

2. The American National Bank held notes to the amount of \$26,275 in the names of the Federal Development Company, Mr. Thomas Allen Row, the Consumers United Stores Company, Inc. Mr. J. J. Hastings and Messrs. Hastings, Row and Olson the latter a farmer who later testified that although President of the American Exchange Bank of Valley City, he did not know the details of the proposed purchase.

3. On February 14, 1919 a committee representing the farmers and including Mr. J. J. Hastings, had gone to the American National Bank with power to purchase it and later a contract was made for the purchase of the American National Bank by the American Exchange Bank represented by Mr. Hastings and associates.

4. When the American National Bank was turned over to the stockholders of the American Exchange Bank, the latter were charged \$13,026.91 in excess of the amount called for in the contract, this sum being over and above the legal commission taken by the organizers on the sale of the stock of the American Exchange Bank.

The Secretary of State and the Attorney General insisted that the notes held by the American National Bank be secured and also that the excess payment which has been referred to by the Attorney General as a take off made by the farmers' funds be returned. The notes were secured and satisfaction of the over charge was made by Mr. Hastings and his associates before the amalgamation was sanctioned. The Cashier of the American National Bank testified under oath that Mr. Ross went to him several times to get him to change the contract between the American National Bank and the American Exchange Bank to cover the so-called take off and that Mr. Ross said: "Mr. Hastings and I are not making as much as you think we are. After these gets his share the balance is divided into four parts. Hastings and I get half and Mr. Tomlinson and Mr. Leuker get the other half."

In connection with the organization of the Farmers' Bank at Valley City the former Attorney General of the State says:

It was represented to me by farmers as shown by the above test made given by William Thomas, that I would, before the State Banking Board, that the State Bank of North Dakota was being organized by the Legislature with a capital of one million dollars. This was a bank to serve as a safe depository where the farmers' accounts of deposits and withdrawals and the Farmers of North Dakota might be able to get to get the paid money into The Bank of North Dakota and that the money would then be loaned out at a rate of actually from 10 to 12 per cent. This suggestion had in it much more than the man who would run the bank. North Dakota banking is then it will be taken out of The Bank of North Dakota and deposited in the bank managed by Mr. Hastings, Ross and three associates and the money will be loaned out to the farmers around the State at higher interest rates.

There can be little doubt that there was genuine enthusiasm in the affair of the Scandinavian American Bank at Fargo which arose some seven months after after the Valley City bank episode. For a proper understanding of the situation however it is necessary to introduce Mr. J. K. Waters, former State Examiner, who later became manager of The Bank of North Dakota. Mr. Waters never makes much of the fact that Mr. Waters had had no previous banking experience, that before he appeared at Beach N. D. he had operated a live stock stable in Iowa and that at Beach he conducted a real estate office and had a race horse. He thus as it may be was appointed by Governor Francis as State Bank Examiner. Subsequently Mr. Waters broke with The Nonpartisan League as a result of disagreement over the management of The Bank of North Dakota, coupled perhaps with an element of jealousy over the fact that he was superseded by the present Director General of the Bank.

## EXTENSIVE CHAIN BANK SCHEME

It has been alleged that in 1917 through his financial secretary, Mr. J. J. Hastings, Mr. Tomlinson had purchased a controlling interest in the Scandinavian American Bank at Fargo and Mr. Waters has since told of the genesis of Mr. Tomlinson's chain bank scheme.<sup>1</sup> He said:

"Now The Nonpartisan League at North Dakota was created by William Langer, former Attorney General of North Dakota. Published under Tomlinson of the New Union Law of North Dakota. Providing for One Year in the Provisions."

"Mr. Waters issued and many of his work associates are not such as to inspire confidence that his present opposition to The Bank of North Dakota and The Nonpartisan League generally is prompted merely by obvious motives. Nevertheless, his charges are on specific and The Nonpartisan League and its officials have never taken legal means open to them to disprove such damaging evidence that one can only conclude that there must be some basis for the allegations which he has made."

As soon as the Bank The Bank of North Dakota was organized and at once as the national center city was permanent. Therefore Fargo Bank the Minneapolis was American Bank announced the major deposits but deposits. It appeared with me to have a deposit equal to the capital but had made up my mind to keep a lower rate to see the action. About that time Mr. Theodore came out with his bank funds to make out my position. Here on Thursday a Fargo bank informed the general out organizing Bank No. 1 by taking all part out of the stock and giving the money on the stock on the Fargo Bank. In general bank taking the money which the Bank of North Dakota would not take out of the bank then they decided upon Bank No. 2 and take all part out of the stock and give the money out of Bank No. 1 money. Money was changed also for deposited in the bank for merged organize Bank No. 2 and the general out of the stock and the money out of Bank No. 2 where some funds were used and the deposited. There is some in the bank organized. I was going to go to the bank but they decided not to go and at the Bank of North Dakota. I was decided for deposited in general out of the bank and in North Dakota has a much greater than any banks are organized for the general fund. It was a large number of men and money organized that the could get out of the state or being taken in there ability in the State and out of the banking business of North Dakota with State funds. And on the the banks would not be business and therefore merged them.

The Scandinavian American Bank had a capital of \$50,000 and a surplus of \$10,000 and under the State banking laws the total liability to the banking association of any person, corporation, concern or firm must not exceed 35 per cent of the capital stock and surplus of such association actually paid on. In the case of the Scandinavian American Bank such limit was \$9,000. Yet a report of the State Banking Board in October agreed by the Assistant Attorney General and two deputy bank examiners showed no less than twenty loans exceeding such limit. In fairness to the Scandinavian American Bank it should be stated that such borrowings in reality were for the most part groups of loans extended through a system of individual loans each of which probably was within the legal limit. The spirit of the law had been violated at least and the bank examiner considered that there was a legal violation as well for he reported the following as current loans:

Name of Borrower	Amount
Porter Kimball	\$15,046 57
No. 12	13,462 50
No. 13	11,324 00
United States Sash Trust	12,000 00
O. K. Hanson.	10,347 89
F. R. Sherman	12,998 50
No. 18	9,159 78
No. 19	9,129 31
No. 20	9,333 89
<b>Total</b>	<b>\$734,194 82</b>

On the above list in addition to The Nonpartisan League itself the Consumers United States Company, Inc. League Exchange, The Publishers National Service Company, H. D. Hagerty, and the United States Sash Trust were all enterprises in which Mr. Lusk's and his associates were financially interested and which in some measure at least were carried on as non-League projects. In reference to this list the deputy bank examiners reported:

The above represents the various loans carried by the Bank and amounts more than 80 per cent of the total loans. Their general character is extremely unsatisfactory. The majority of the loans were made on extremely inadequate and in many cases no collateral security and some of the proper character of several. Total lack of judgment and unbusinesslike operations is conspicuous in the extension of the total loans displayed by the character of 20 extremely loans which in each instance appear to have been made on the basis of the decline. In every case we find the loans a result of the fact that the collaterals held by the bank for the loans carries no credit or value.

The general lack of care and judgment in the various loans apply equally to the various loans made directly and indirectly connected with the principal amounts for the bank. All of the loans extended from a banking standpoint the general condition of the loans as a whole is so poor and unsatisfactory as to be in the interest measure. An examination of the collateral could not from the nature of the case reveal all of the proper papers but the condition found in the more apparent cases shows that credit has been extended without any system and without any consideration by the Bank officers, and all of the loans have extended with the same defects apparent in those already noted.

## POST-DATED CHEQUES FREELY USED

The security behind the loans to the Consumers United States Company consisted of farmers' liabilities and post-dated cheques amounting in all to \$334,264 89. The deputy bank examiners considered that the farmers' notes held as collateral were not worth a cent of 50 per cent of their par value when they adjudged that for the purpose of collateral and security for loans post-dated cheques were without any validity or substantial value. The Supreme Court of the State of North Dakota elected on The Nonpartisan League ticket has since ruled that post-dated cheques are negotiable instruments. In connection with such notes and cheques the examiners stated:

The method by which all collateral is handled requires comment. The collateral held by the Bank for the Consumers United States Company loans and for The National Nonpartisan League is in the control and custody of one Mrs. Emma Guston who is in the employ of the two defunct mentioned firms. This collateral was kept at the vault of the Bank in conformity to her at all times, and under her direction and by her it is taken from the Bank and placed under the control of the defunct companies for the purpose of collection, and not used recently have even the receipts previously mentioned been given



to the Bank to show that such certain specific collateral had been so removed. Mrs. Clayton is the only person who has knowledge of the amount of collateral on hand and its correctness. She has her offices in the rear of the building and her figures are taken by the officials of the Bank as true and correct.

The collateral security held by the Scandinavian American Bank for its loan to The National Nonpartisan League also consisted principally of post-dated cheques together with bonds of the Consumers' United Stores Company, Inc., in the sum of \$20,000. The examiners were of the opinion that "this line of credit is almost wholly unsecured." The security for the loans of the League Exchange Inc. the financial organization of Mr. Townley and his associates, comprised farmers' notes and bank stocks. The examiners reported that taken at its face value, such bank stock collateral did not come "within over \$0,000 of being sufficient to cover the face of the loan." They added "It is our judgment that this loan is not only excessive in the extreme but that the collateral is wholly inadequate."

The loan to H. D. Hagerty was overdue and for months had been in the hands of lawyers for collection without avail. The opinion of the examiners reads "This loan is not only excessive but if not totally, worthless it is wholly bad. The makers of the notes collateral are irresponsible and financial vagrants. The security behind it is just as questionable and is of the same shadowy doubtful character as the signature of the makers of the principal obligation."

Relative to the loan to the United States Seal Trust, the examiners said:

This loan consists of three notes signed by the United States Seal Trust, by Mr. J. R. Waters, President, and represents an obligation acquired by the Bank from the above corporation which is as yet without a license from the Blue Sky Board to do business in this State. It amounts to \$12,000 in all, is excessive without collateral of any kind for security and has no right to be in the Bank at all, to say nothing of being excessive. This is one of the widest pieces of bookkeeping displayed by our survey. This also meets approval of directors.

Other excess loans were strongly criticized, as was also the amount of past due paper held by the Bank much of which paper was in the hands of lawyers for collection and on which "not a great deal can be expected to be realized."

The Scandinavian American Bank held the stock of nine banks, totalling in value \$82,046.79, and including 57 shares of the stock of the Scandinavian American Bank itself. The Bank also had loaned \$5,300 to The Courier News of Fargo, the editorial policy of which is dictated by Mr. Townley at a salary of \$100 per month. The two notes on which the loan was made to the newspaper were unsupported by collateral and the larger note was past due. In conclusion, the deputy examiner said:

The Bank is heavily overburdened at the present time by reason of the excess liabilities and extensions of credit already discussed. Its reserve is way below the requirements of law and if figured in strict accordance with the law at the time of this report would be several hundred thousand dollars less than its reserve. The Bank today is unable to properly handle itself because of these excessive loans of credit and injudicious extension of loans and presents a vast unwieldy \$1,500,000 financial monster, unable to take care of its obligations. Beyond any question of a doubt, I am of the opinion that the Scandinavian American Bank of Fargo is insolvent. I do not attempt at this time to place the entire responsibility for this condition. The condition of the money, however, is too apparent to warrant other conclusions. I do not believe that the protection to which the depositors in the Bank are entitled could justify a continuation of business. I am thoroughly convinced that the only way in which the

and interests of the Bank and its patrons may be served as by closing its doors from further business with the public and these objectionable conditions have continued have been rectified.

## PLAIN CASE OF "WINDOW-DRESSING"

In a supplementary report the Assistant Attorney General and the deputy bank examiners referred to an arrangement between the Scandinavian American Bank and a bank in Finland by which a contingent deposit in the Finnish institution was made to appear as an available cash reserve. In other words it was a plain case of window dressing. The following extract is from the supplementary report on the Scandinavian American Bank:

"It partly is apparent from the rest of the report that not only is the surplus completely inflated but the capital stock is reported on the sum of \$7,492. We have gone to the substance that the Scandinavian American Bank is hopelessly dishonest in those who believed in the condition of the various banks stated by the Bank and used and abused in our former report.

The unsatisfactory condition of the Bank was known to the State Bank Examiner's Office, a report made by a deputy bank examiner of the State in the preceding April showed an insufficient reserve and other unsatisfactory conditions. Nevertheless action was sent from the Examiner's Office to the Scandinavian American Bank as to what steps should be taken in order that the Bank might pass examination by the Guaranty Fund Commission. At that time the Governor was requested to appoint the three banker members of the Guaranty Fund Commission from a list of nine submitted by the North Dakota Bankers' Association. The Secretary of the Commission was the State Bank Examiner, Mr. J. H. Waters, an appointee of Governor Fraser. In a letter dated at Bismarck June 10, 1918, Mr. Roy M. Halliday, one of the clerks or deputies in Mr. Waters' Office, wrote to Mr. J. J. Hastings, Vice President of The Scandinavian American Bank at Fargo, stating that Mr. Waters was undergoing a minor operation at the Bismarck Hospital and had asked the writer to communicate with Mr. Hastings. Mr. Halliday † wrote:

Mr. M. Waters has asked me to write you regarding extra help you have at your Bank now making an examination. He has been sick since last Thursday so he would be a headache he thing off. Being the Mr. Waters says Mr. Henningsen and Mr. Hallgren are there now to make a examination on behalf of the commission he does not see a state any possibility and arrangement over his matter at this time and get a good report but then as possible as that they must have anything. Hand the representative papers over League leaders and business men both as to the amount of paper spread there it appears quite evident but this is a political party for Thursday. You are the representative justice are a little short on that occasion, Thursday and they are trying to make up something for the last act and I don't suppose the other banks in Fargo are not doing you good from a job about you. Mr. Waters wishes me to advise you that if the examination stops today of the

\*The Act has since been amended to require that the Depository Guaranty Fund Commission be composed of the Governor of the State of North Dakota, the State Examiner, and three members to be appointed by the Governor of the State and that all appointing appointments to membership of said Commission whether to fill vacancies or otherwise, shall be made by the Governor of the State of North Dakota. Before the Banking Board's trial on the Scandinavian American Bank Mr. Hagen, President of that institution, was appointed by the Governor as Chairman of the Depository Guaranty Fund Commission.

Mr. Halliday has since stated that he wrote this letter without Mr. Waters' knowledge.

paper carried there you are to tell them that it will be removed at once. The plan for taking care of objectionable matter is to submit it up to the other League banks Grand Forks, Lakota, Hallock, Bismarck, Maynard. These banks are practically all non-banks and have been passed by the statement which will leave them in a position to do this. There would not have anything that

the statement would subject to get more. Also being that you said there would be taking back after you had passed. If anyone is doubt would you be more likely back a statement to make a to get by with a clean report. Mr. Waters is satisfied that with the statement you and Mr. Thompson will be able to handle this matter satisfactory to all."

The above letter was followed the next day June 11 by another in which Mr. Halliday said

In reply to the foregoing and statement of the other League banks to take care of the paper which we might have an account of the capacity of the statement we said that the banks except Grand Forks were passed and the banks in question were the first of July to be passed and do to send the statement. The statement in question says that they had no cash deposits as of May 31 and Lakota were very much and were not passed. Lakota was passed on saying that Lakota could not do anything if you have a statement saying

The relations existing between the Scandinavian American Bank at Fargo and The Nonpartisan League is indicated in a letter to Mr. Ramsey from the Cashier of the Bank appealing for additional funds. The letter which was dated May 28, 1919 reads in part

Aggravation with most requests in agriculture when we were in need of funds. I desire to state we have a good crop of grain and we want that in days about \$100,000. The more which we can get in Lakota and Minneapolis has been sold and we have been a good crop of grain in the market. We have been a good crop of grain in the market with very little reserve and have gone further and have which will increase and we have a good crop of grain \$200,000 to \$250,000 between now and harvest.

Mr. Rogers also writes we are getting \$200,000 in addition to the State Deposit which we received and says that you give that your immediate attention and your own company.

We are getting a fairly good different crop of grain, but some are delayed in that there are no crops available coming to us at this season. Our only source of crops is the State of Minnesota which has a good crop of grain. The State Bank of Minnesota has been sold and we have a good crop of grain. We are getting a good crop of grain and we have a good crop of grain. We are getting a good crop of grain and we have a good crop of grain.

The fact that we have received the League and the Commercial United States Company is an account of \$200,000 in grain deposits and available that much. While we are glad to be of assistance to the bank which we have we might have assistance if we shall get through the summer without difficulty.

## COURT ORDERED RE-OPENING

The closing of the Scandinavian American Bank by order of the State Banking Board in the absence of the State Examiner appears to have taken the officials of The Nonpartisan League by surprise. But steps were taken immediately to reopen the Bank. Some of the papers to which directions were made appears to have been taken over by other local banks controlled by a friendly to The Nonpartisan

Mr. Waters finally up before the House and committee and of course questions with Mr. Waters in which Mr. Waters had presented against the closing of public money from The Bank at North Dakota to the Scandinavian American Bank at Fargo of which it is said Mr. Leach was actually a member. The Bank Manager told Mr. Waters that if the Scandinavian American Bank, being a bank, was closed, it would mean the closure of the non-league candidate Mr. Leach as a member. Mr. Leach replied, "By— I'll keep that bank open if it takes any dollar of public money in the State of North Dakota." Mr. Waters also told of calls from Mr. Ramsey for additional deposits or loans from The Bank at North Dakota to the Scandinavian American Bank.

League Auditors, who previously had done work for the League commenced preparation of a statement to effect the reports to the State Banking Board. Recent evidence before the House Audit Committee has shown that the statement was prepared and signed by both the State Examiner and the Special Auditor of the State Auditor was hostile to the League and consequently was ignored, was misleading in several particulars, if not actually dishonest. Supported by such report approval was made to the Supreme Court of the State to require the Bank. In this connection it should be stated that the Scandinavian League had elected four of the five Supreme Court Justices. Three of such Justices especially are bitterly opposed by the Independents and thoroughly unswayed, one of the mildest of the expressions applied to them. A recently Supreme Court has been a matter of considerable strength to the League leaders and the decisions of such Court have weakened the Independents in initiative and confidence. In this particular case the Supreme Court ruled that the Banking Board had exceeded its powers and ordered rescinding of the Scandinavian American Bank. This action was taken despite the deputy bank examiner's report of the condition of the Bank as revealed above and a later disregard of an application then pending before the Court by the Attorney General for the right to examine the men whose affidavits were used to support the application on behalf of the Bank. The State Banking Board was not even given an opportunity of being witnesses before the Court. The proceeding itself was an amazing one for which it is difficult to find any justification. Of relations of The Bank of North Dakota with the Scandinavian American Bank of Fargo, Mr. Waters has said:

There was some attempt at reorganization of the Scandinavian American Bank after it was requested. Mr. H. J. Hagen has returned recently and left the State but the institution is still closed in part and controlled by the Nonpartisan League through the League's manager and individuals available to the League. Some additional capital was recently subscribed, but the money was kept in a special fund in the Bank and the new stock has not been issued. The Bank remained in operation continuously from the date of its reorganization in October 1916 until February 14 1921 when it did not open under a order by the State Bank Examiner. Finally to meet demands made upon it by the Bank of North Dakota (as the reason offered) for closing. Indeed the Scandinavian American Bank is indebted to the Bank of North Dakota in the amount of \$428,000. of which approximately \$350,000. The

institution has not been a member of the Fargo Clearing House Association since it was closed in 1919 by the State Banking Board presumably because of inability to comply with the regulations of such Association. Most of the Fargo banks have dealt with the institution only on a cash basis, refusing to accept drafts for clearing items. On February 13, officials of the Scandinavian American Bank in conference with other Fargo bankers, asked for an advance of \$100,000 to enable it to carry on, but the loan was refused. Commenting editorially on February 15, 1921 on the developments since the first closing of the Scandinavian American Bank in 1919, The Fargo Forum said:

The Bank of North Dakota poured an additional sum of \$143,000 on, over and above the amount of drafts and deposits from the State Bank in October, 1919, into the Scandinavian American Bank and as a result it has some \$40,000 in paper which was at least of questionable value. That paper five years later is almost dead on The Bank of North Dakota.

## CO-OPERATIVE RETAIL STORES PLANNED

The Consumers United Stores Company, Inc., is another private or semi-private venture in which Nonpartisan League officials have been interested. It appears to have been Mr. Townley's plan to organize co-operative retail stores in every town of any size and at least one store in each county in the State. To become a member of any such store it was necessary to be a paid-up member of The Nonpartisan League. Membership in one of the farmers' stores cost \$100, for which was purchased the privilege of buying goods at cost plus a profit of 10 per cent. The Consumers United Stores Company, Inc. was the central organization through which the formation of local stores was contemplated. The agreement for a buyer's certificate in the Consumers United Stores Company was a most unusual one. It provided that 90 per cent of all money subscribed should be used for the establishment of a local store until a certain sum should be so applied. All surplus over and above that amount was to be used by the Consumers United Stores Company "to establish and maintain a central buying agency or wholesale establishment or to carry on educational work or propaganda along all lines deemed by the Board of Directors of the Consumers United Stores Company to be in the interest of or beneficial to farmers, and for the assistance of farmers' organizations such as relate to the economic, educational or political interests of the farmers or both." It is said that under the terms of such agreement very large sums of money have been secured by the Consumers United Stores Company, Inc., without the latter being under any specific obligation in respect of how much money should be used. In fact, Mr. Townley is said to have refused to make any accounting of the "surplus."

Mr. J. W. Brinson, who was formerly associated with Mr. Townley as private secretary and personal representative, but who for some time has been fighting bitterly the President of The National Nonpartisan League and the entire organization, has written as follows of the Consumers United Stores Company:

With a capital of \$1,000, seventy per cent held by his personal attorney, William C. Cooke, his bankruptcy proceedings still pending, Townley from holding anything in his own name, he sold in less than one year over one million dollars of memberships at \$100 each to league members. Thus, through his attorney, he controlled a million dollars paid him in money and notes. He secured these funds through League organizers who carried credentials signed by Townley, the promoter, which stated that the company was being formed under the

support of The Nonpartisan League. This support was organized along the lines of the League with all the control in Ross T. Tompkins' hands with an agreement with each member for a greater part now of the money which has already been used in the head offices of the company. And money more.

Many of the Nonpartisan League stores have gone out of business and some of those that are operating still are said to be in a precarious condition. Reference already has been made to the plan set out by the State mill as Drake seeing about re-investigation and to the money received in connection with such transactions. A large proportion of such business was with the Minnesota United States Lumber Co. Inc. Certainly Mr. Tompkins' plan for a greater control of the State has not in fact been to the agreement of North Dakota. On the other hand the memberships have proved to be uncommensurate investments while the State mill has lost money through its relations with some of the stores.

There remains to be told the story of the soap enterprise in Florida. It is alleged that Mr. Tompkins through intermediaries just bought 22,000 acres of land in Florida and that Messrs. Hastings and Bates already referred to in connection with the Valley City Bank loan and other bank promotional organizations a holding company in North Dakota and held Mr. Tompkins' interests in several of the form of trust certificates. Papers to organize the United States Soap Trust were also drawn with Messrs. Hastings and Bates as officers. Mr. J. W. Harrison, formerly Mr. Tompkins' secretary and personal representative, has charged that \$12,000 of the money for the purchase of the land was obtained through Mr. Hastings and the Second National American Bank at Fargo. It seems clear that State lands under the control of The Nonpartisan League through The Bank of North Dakota were deposited in the Second National American Bank at Fargo, the Bank in which Mr. Tompkins and his associates had a controlling interest and that such lands were loaned in part to finance the soap enterprise of Mr. Tompkins, the President of The Nonpartisan League. Mr. Harrison has charged that there was an embezzlement of \$12,000 entrusted to the Fargo institution in lands which had gone to Florida. The owners' proof of these statements are in the hands of the master proof of financial transactions that would make Ponzi an amateur. If the primary charge against Mr. Harrison following his recent evidence before the House Audit Committee—that more light may be thrown on the alleged transactions through which he has referred. If one can believe the public statements of Messrs. Bates, Hastings and Watson, even with generous inquest relative to the steps taken by the President of The Nonpartisan League in an attempt to cover up his connection with the soap promotion at a time when the operations of his financial secretary were under federal investigation, Mr. Tompkins' quotations would put to shame the most daring and unscrupulous of "wildcat" financiers.

Reference already has been made to the chain of newspapers controlled by officials of The Nonpartisan League and to the newspaper law under which the State Administration could designate itself newspapers as "official" and thereby give to them a monopoly in respect of certain classes of advertising. The present control of some 50 papers in the State of North Dakota was secured in large measure by organizing local publishing corporations with money subscribed by farmers. In the case of some of these corporations the common stock along with a controlling interest is said to have gone to the Publishers National Service Bureau for promotion and other services. The League Exchange Inc.

is a financial organization which is also controlled by Mr. Townley and associates. The Exchange operates as a holding company and also has served as an agency for financing certain of the projects of The Non-partisan League President's friends. The bank examiners' reports in the Scandinavian American Bank affair showed that The League Exchange, Inc. had acquired 57 shares of the stock of the Scandinavian American Bank of Fargo and deposited such shares along with shares of 5 other banks in the Scandinavian American Bank as security for loans.<sup>2</sup> In 1919 The League Exchange owned 67 shares of Scandinavian American Bank Stock. Mr. F. B. Wood as trustee for The Nonpartisan League held 100 shares while individuals favorable to the League held a considerable part of the balance. Officers of the Bank have admitted recently that such stock ownership is practically unchanged and that The Nonpartisan League directly or through The League Exchange owns at least 167 out of the 500 shares of stock. That the policy of the Bank has continued to be controlled by the League has been generally recognized.

### LEAGUE LEADERS AND THE BANKS

The full story of the organization of banks by persons representing Nonpartisan League leaders, the methods of financing such institutions, the relations between these banks and the semi-private enterprises of prominent Leaguers, and the relations between such banks and The Bank of North Dakota has not yet been disclosed. In 1918 a number of banks now frequently referred to as League Banks, were started by Mr. Thomas Allen Box and Mr. J. J. Hastings. It has been said that Mr. Townley contemplated a chain of 200 banks. On October 1, 1919, Attorney General Langer issued a warning to the farmers against purchasing stock in any such banking institution. The plan appears to have been that the farmers should provide cash or notes to the amount of 49 per cent of the total stock and that The League Exchange Inc., should subscribe for 51 per cent, giving its note in payment, that The Bank of North Dakota should deposit public funds in the Scandinavian American Bank at Fargo, which was to serve as a central institution for financing Mr. Townley's scheme, and that the farmers' notes should be discounted at other Townley controlled banks which should be kept in funds by State deposits. That the scheme actually was put into operation in the organization of some banks appears from evidence before the House Audit Committee. The following editorial statement by The Fargo Forum of February 17, 1921, seems to summarize fairly disclosures relative to the People's State Bank at Leith, which closed its doors on February 15.

Apparently the proprietors of the Bank at Leith gave their notes, secured by the capital stock of the Bank, to the Scandinavian American Bank, and later when sufficient deposits were received these notes were replaced by the certificates of deposit from the Leith Bank. Thus the depositors provided the capital stock of the Leith Bank.

Again it has been shown that loans, which are said to have been used to finance The Nonpartisan League's political activities, were made by the Security National Bank of Valley City, under an arrangement with Mr. Townley, and on the understanding that The Bank of North Dakota would make a deposit covering such loans. The Assistant Cashier of the

<sup>2</sup>This transaction would appear to be illegal under Section 6100 of the State Banking Laws, although The Nonpartisan League leaders operations for the most part seem to have been kept within the letter of the law.

Security National Bank of Valley City has testified that five certificates of deposit in various banks throughout the State were accepted by the Security National Bank and money paid out on them on the understanding that the deposit from The Bank of North Dakota would remain with the Valley City institution as the paper was redeemed. The Security National Bank had issued five certificates of deposit backed by notes which Mr. Tomlinson obtained from farmers favorable to the Non-partisan League. These certificates of deposit were taken by Mr. Tomlinson and money was realized upon them through other banks in North Dakota and Minnesota. A draft drawn upon the Security National Bank by The Bank of North Dakota for the repayment of deposits in the private bank was refused on the strength of the agreement covering the certificates of deposit upon which advances were made and the draft was cashed by The Bank of North Dakota after the Assistant Cashier wrote a letter explaining why the payment was refused. On a recent date one third of all the deposits and loans from The Bank of North Dakota in Barnes County was in the so-called League bank at Valley City, the American Exchange Bank while the remaining two thirds was divided among 24 other banks. The Farmers State Bank of Lake Harbor with deposits and advances from The Bank of North Dakota totaling \$44,150 more than twice the combined assets and reserves of the local institutions loaned \$25,000 to the Farmers National Savings Bureau, a non-League enterprise, on the non-pled note of the Bureau. The legal limit of loans from the Bank of North Dakota was \$3,450. The State Bank Examiner has admitted that the First State Bank of Minnoka, of which he was cashier at the time of his appointment to his present office, was used as a channel for financing a called Non-partisan League Corporation. Loans made in this manner are reported as deposits and loans from The Bank of North Dakota. The State Bank Examiner himself loaned \$2,000 to public funds from The Bank of North Dakota to supplement a cash on hand which closed 21 days after the deposit was made. Mr. Hoffman said that he caused the deposit to be made with the expectation that it would prompt the bank to continue in operation. A deposit bank engineer reporting on another local bank with papers which apparently had come from the Scandinavian American Bank of Fargo, said it seemed to me that three of the officers must have been more thoroughly influenced in taking some of the loans that are on the books. One Rex and Hastings bank according to the report was secured by a pitch heap, wood pitch heap, consisting of a framed building in which the meeting was played after the fire. Still are other interesting transactions disclosed before the House Audit Committee which include the following: The Fargo Loan

At a time when prices advanced in North Dakota wheat and a price in automobiles began to make money good for buying on when no loans at all were made, the note issued by the Valley Farmers credit league was needed for handling the same. The Bank of North Dakota loaned \$27,000 advance on the debt who met with the league and sugar companies. Apparently The Bank of North Dakota's officers bought the note and turned them over to the non-members without a dollar coming from them. The notes were given to the dealer for the cash purchase price of the same. He distributed them with his bank in Michigan City and the bank promptly redeemed them to The Bank of North Dakota. The fact that the legal limit which the Michigan City Bank could loan in any way was \$1,000, appears to have been kept a matter on which the bank's action was paid. But the report was that The Bank of North Dakota had and still has for the matter notes to the extent of \$27,000 secured by mortgages on cars which are worth exactly that amount now and when the notes were given. All the notes are working



The dealer who has handled many automobiles for The Nonpartisan League has testified that he made the arrangement to discount paper in the Michigan City and other banks, 'with the knowledge that it was going into The Bank of North Dakota.' Then there is evidence of 'window-dressing,' the practice of 'shooting to other friendly banks' questionable paper, at a time when official examination is expected. It would appear that as yet the investigations in North Dakota have only touched the fringe of the whole wretched story of bank manipulation and entanglement with The Nonpartisan League and its friends. But the disclosures already made would afford a healthy study for those Canadians who profess to desire 'nationalization' of the Canadian banking system or talk of the supposed advantages to local communities of small unit banks over the Canadian branch banking system.

Mr Townley and the other high officials of The Nonpartisan League were interested in various financial and development corporations, but the activities of the concerns of principal interest have been analyzed in sufficient detail to indicate that the 'promoter' instinct was keen in Mr Townley and that in the case of some of his enterprises The Nonpartisan League was used indirectly at least to ensure the success of privately-controlled projects. At the same time, it has not been proved that Mr Townley was dominated solely, or even largely, by a greed for wealth or personal preferment. The President of The Nonpartisan League combines in a strange personality the instincts and abilities of the agitator and the promoter. His enemies denounce him as a 'crook'; his initials 'A. C.' have been given the apocryphal interpretation of

'After Cash', but the more charitable view is that Mr Townley has the 'reformers' zeal, and that such zeal prompted the experiments which have brought little if any advantage to the people of North Dakota but, on the contrary, have done harm, the full extent of which has not yet been realized.

## Nonpartisan League Policies and Their Consequences

"Townleyism" is bankrupt of practical policies; its efforts to deal with the present financial and banking situation in North Dakota have shown a lack of constructive resources and a surprising inability to devise any effective solution of difficulties which menace not only the entire industrial programme of The Nonpartisan League but the welfare of the State itself. In its Federal platform the League has no constructive plans, but has espoused Government ownership of railways artlessly accepting the Plumb plan, and it also has degraded its ambitious, unsupported by practical plans, to abolish gambling in the necessities of life. While recent developments in North Dakota have gone far towards discrediting the organization, it probably would be a mistake to imagine that The Nonpartisan League has reached the end of the road and that henceforth it is not a factor to be reckoned with in either Federal or State affairs. The League has the popular side of most public questions. It has a highly efficient and highly dangerous propaganda organization and it has control of many votes. Thousands of farmers in North Dakota and elsewhere who read its papers controlled by or friendly to the League, only one side of the story, still appear to have faith in Mr. Townley and his associates. Temporarily at least the League has been checked in its political programme but it is still an exceedingly dangerous force. In a letter written shortly after the November elections, an official connected with the North Dakota organization said:

"With regard to election results in other States where The Nonpartisan League is organized, while no other State was carried with the exception of Wisconsin where a combination between the League and La Follette forces won important victories, the organization has made very substantial gains all along the line. We are of the opinion that on the whole, we are justified in taking a very optimistic view of the situation."

Certainly an organization which polled at least a million votes through out the United States in the last elections cannot be disregarded lightly.

So far as the North Dakota experiments are concerned, recent developments have shown that The Nonpartisan League's plans were not carefully thought out in detail. The State Bank and the State enterprises which the Bank was designed to finance have not stood the test of adversity, although League supporters may contend with some justice that the programme was handicapped from the outset by the failure to sell the State bonds which were intended to provide much needed capital. But apart from any question as to the inherent merits or demerits of the League's industrial programme, poor judgment was exercised in embarking on the various projects before the financing was arranged. It was another case of reliance on the fiat of the State and failure to distinguish between the authorizing and the sale of bonds. Inability to dispose of State securities led to the compulsory mobilization of public funds and employment of such trust money in part for long term loans. The passage at the last session of all the laws initiated by

opponents of The Nonpartisan League was a severe blow to the prestige of the Administration and it seems probable that the election would have been disastrous to the League had its candidates not been listed as Republicans and thereby derived the benefit of the Republican tide. Even at that the majority for the League state was less than 5000 while Mr Harding won the State with a majority of 130000. Passage of the initiated measures is convincing evidence that the former popular trust of The Nonpartisan League leadership has given place to doubt and a desire for criticism and restrictions. There is no proof as yet, however, that the agriculturalists are prepared to scrap the entire industrial programme of class antagonisms developed by years of propaganda. On the hard even in the face of the lack of success which has attended the socialist experiments in North Dakota.

The present situation is not satisfactory to either The Nonpartisan League supporters or the opposition. League members are in control of the majority of the State officers and practically all the more important offices. In the next two years unless the recall law can be utilized successfully and at least that is an awkward and doubtful expedient. The League controls the Senate by one vote while the opposition has a majority of five in the House of Representatives. Under these conditions a deadlock has developed with little prospect of progress. The House of Representatives and the Senate have been working at cross purposes both seeking the political advantage. Immediately after the last election it was apparent that the League was determined to carry on and to govern in disregard of the Legislature. A letter from an official of the League dated November 27, 1920 contained the following significant paragraphs which show just how much concern the League has for much vaunted Democracy when the latter happens to be unfavorable to its radical plans:

"The League elected the Governor, the Attorney General and the Commissioners of Agriculture and Labor thus retaining and completing its control of the Industrial Commission which has its administrative seat of the State entire place. It possesses but one or no members out of five of the Industrial Commission, the Attorney General, Mr. Capper being hostile. The League also controls the State And so on that the present members Mr. Kootchy who is rabidly anti-League, will go out.

The League controls in fact the Lower House of the Legislative Assembly but presently has lost a majority in the House of Representatives. But as no measure can be passed without the Governor's signature and as practically no new legislation is needed for the carrying out of the industrial programme little objection can be expected because of that reason. It may even be of some advantage to the League movement in that responsibility for the making of large appropriations for the support of education and other purposes which undoubtedly will be imperatively needed will be divided.

## OPPOSITION IS GAINING STRENGTH

The compromise proposal made by The North Dakota Bankers Association early in January indicates that the business interests of the State expected that they would have to make the best of two years more of Nonpartisan League government. They hoped however that the League would be obliged to restrict its expropriation schemes and adopt a more moderate policy. But this was before the banking situation

\*This explains the reluctance on the part of the anti-League forces to resort to a recall election until the full story of the League's operations has been disclosed and disseminated.

in the State was as acute as it has become during the last three months. The initiative was taken by League officials in arranging the conference in Minneapolis between representatives of the North Dakota State Administration and the bankers, and this fact is significant as disclosing a realization by the League leaders that some compromise must be made or even greater disaster will ensue. The banking situation in the State, with numerous bank failures, the difficulties of The Bank of North Dakota and the practical admission that the institution is insolvent as judged by standards applied to private banks and the evidence before the audit committees of the Legislature have gone far towards impairing the confidence of the League leaders and their followers. Unquestionably much support has been alienated. The League still is blaming Big Business and Wall Street for its difficulties, but admittedly, something must be done to relieve the situation. The Senate, with League supporters in the majority, has rejected bills sponsored by Independents and intended to restrict the powers of The Bank of North Dakota. Bills have been introduced into the House of Representatives to provide for designation of private banks in the State as depositories for public funds and regulations applicable to such depositories to change the membership of the Industrial Commission, to create a State rural credits board to take over the farm loan business of The Bank of North Dakota and to create a board to regulate the assets of The Bank of North Dakota and repay depositors. But even if these be passed by the House, it seems almost certain that they will be defeated in the Senate should the Senate fail to do so, the League still has the Governor's veto in reserve. But in a situation so chaotic as that in North Dakota forecloses are difficult and likely to be unrelaxing. Opposition to the League appears to be gaining strength but the Farmers' organization is well entrenched. Town meetings are being arranged for the purpose of discussing the state of affairs and demanding relief. Resort to the recall is an effort to effect removal of some of the Nonpartisan League officials has been discussed but there are serious objections to such a course at the present time. It seems not improbable however that the Independents may invoke the recall in an effort to depose the majority of the State Supreme Court which is held responsible in large measure as the answer to the trouble. Why are all these things allowed to happen?"

The Secretary of The Independent Voters' Association in a letter dated February 9, 1921, said:

In North Dakota the Nonpartisan League movement is now making its last stand. By 1922 the League in North Dakota will either have ceased to

1The Fargo Forum in an editorial on its issue of February 24 reviewed the condition of affairs at the present time, and added:

It means that within four months at the present rate we must have a dollar to run our State Government and many of our country stores, villages and school districts will be very seriously embarrassed.

"At least three of these bills would require a two-thirds majority to pass them and such majority cannot be expected.

Since the above was written a committee representing elements in opposition to the Nonpartisan League has decided to initiate a recall election, aimed at the Governor, Attorney General, Commissioner of Agriculture and Labor three members of the Supreme Court and certain other elected officials. Both factions are preparing for the contest and there is no room for doubt that the League will make a strong fight. Letters issued by county managers of the League, announce the intention to raise a campaign fund of \$250,000 for the first round of the fight."

exist or become a political organization, more responsive to the will of its membership and more favorable to the farmers' best interests, than The Nonpartisan League is in its present form."

While no extension of the Industrial Programme of The Nonpartisan League in North Dakota is possible under present conditions, it has been the avowed intention of the League to enter into competition with private industries by establishing a thorough going system of State ownership of certain industries closely related to agriculture such industries including milling and meat packing. League officials have frankly admitted the possibility of extending the present State hail and tornado insurance to cover other forms of insurance on farm and city property, while the workmen's compensation legislation has been viewed by at least some of the League officials as a beginning towards a possible much larger plan of life and disability insurance. As an indication of the absurd lengths to which some of the legislators are prepared to go and the apparent confidence in the State's power to regulate by legislation may be mentioned a bill, considered in the State Senate on February 17, 1921, which would have prohibited school teachers dancing on any nights but Friday and Saturday, the amazing fact is that the bill was defeated only by the narrow margin of 26 to 23.

From the above analysis it will be seen that the Legislature of North Dakota controlled by The Nonpartisan League created an Industrial Commission and gave to it far reaching powers relative to State industries, established a State bank and gave into its possession the funds of the State Administration and of all political subdivisions of the State compelling such money to be redeposited in the Bank at a low rate of interest administered by the Industrial Commission organized a State Mill and Elevator Association which is now operating a small flour mill and has partially constructed a large mill and elevator at Grand Forks, created a Home Building Association, authorized issuance of State bonds to the amount of \$17,000,000 in the Legislative Session of 1919 to provide capital for The Bank of North Dakota, to enable The Bank of North Dakota to issue mortgages on real estate and to finance the mill and elevator programme and made substantial appropriations to be met by taxation on account of State enterprises. Some of the results of such programme have been indicated others remain to be considered.

## AN APPEAL TO LABOR ORGANIZATIONS.

The credit of the State of North Dakota has been seriously impaired by reason of the legislation of The Nonpartisan League. Except for the small amount of bonds purchased by citizens of Grand Forks in order to secure the State mill and grain elevator for their municipality, and the even smaller amount \$48,000, of bonds of the Bank Series disposed of privately, none of the bond issues of the State has been sold. Undoubtedly the difficulties in the way of marketing State bonds were not due entirely to Nonpartisan League policies, but the latter appear to have been responsible in large measure. The North Dakota Bankers' Association has stated that the sinking fund provisions in connection with the State bond issues are "wholly inadequate and uncertain." All such sinking funds are required to be deposited in The Bank of North Dakota and the latter may transfer funds (without limit) to other departments, institutions, utilities industries, enterprises or other

business projects of the State has done so already to an extent that has weakened the entire financial structure of the State and may continue to do so under existing laws to an unlimited extent.

Moreover, The Bank of North Dakota has power to purchase any part of the several issues of State bonds with any funds in its possession. But the sinking fund provisions are not the only objection, even as it appears to be destructive of the Nonpartisan League Administration in control of the State Government. Certainly failure to negotiate sale of the State issues has not been due to lack of effort. The bonds have been offered in the principal money centres of the United States without success. The Governor of the State and the Fiscal Agent of The Bank of North Dakota recently have been in Washington where they were in conference with labor leaders with a view to disposing of North Dakota bonds through labor organizations. The Executive Committee of the American Federation of Labor is reported to have advised the visitors that the Federation was not in the least business, but a resolution was adopted recommending that the labor organizations give friendly consideration to the bond issue of the State-owned Bank of North Dakota.

The Chicago Federation of Labor which represents the extremely radical wing of the Labor movement is said to have given its endorsement to the League Efforts to borrow money for North Dakota in New York and elsewhere even at 8 per cent interest have been unsuccessful. In this connection it may be pointed out that other agricultural States have been able to dispose of considerable quantities of these securities. South Dakota, for example, sold \$5,000,000 of such credit bonds bearing 8 per cent interest in Chicago in January, 1923 at a premium. North Dakota has been in an extremely fortunate position so far as debt is concerned and the credit of the State was absolutely sound. Finally, of North Dakota to sell its bonds when other States have been able to dispose of theirs appears therefore to be chargeable principally to distrust of the Nonpartisan League, control and poison.

But it has not alone been the State credit that has suffered. North Dakota like other poorer agricultural communities dependent for development upon funds from outside has been a debtor State. A number of large lending institutions have curtailed their loans in the State and the consequent reduction in competition has been a factor in enabling the remaining institutions to charge higher rates than otherwise would be possible. Moreover it has resulted in the agricultural loans being required to provide better security than was demanded formerly. The writer was frankly skeptical that the withdrawal of part of the loans of insurance and loan mortgage companies from North Dakota was due to fear of the Nonpartisan League, but he has now acquired intimacies which leave no doubt that the charge is true. One large insurance company which is carrying about \$1,000,000 in North Dakota loans and increasing its interests there declined to send any new money in that State and has been taking care of renewals only more or less under protest. An

"Propaganda literature placed by agents of the League in the control of offices of the American Federation, caused recent North Dakota legislation favorable to Organized labor and applied to Organized Labor."

Smash the open shop drive against North Dakota its industrial program and labor laws.

Invest waste lands in the hands of the State of North Dakota. Monitored by Will B.

Deposit money surplus in the State-owned Bank of North Dakota and break the boycott of the money trust."

officer, in a letter to one of the Company's correspondents in North Dakota on October 5, 1920, said:

Your recent letters were brought before the Finance Committee this morning, but the members showed no disposition to change their attitude towards business from North Dakota."

This letter followed previous correspondence in which the Company had definitely stated that its inclination to lend further money in North Dakota was due to the policies of The Nonpartisan League. While declining loans in North Dakota even at high interest rates, the same Company continued to lend money in other States. Another leading insurance company, under date of October 13, 1920, wrote to a North Dakota correspondent stating:

We considered the question of investing in North Dakota farm mortgages, but the decision was unfavorable to the move.

This concern had some \$600,000 on loan in that State and was increasing its loans there before The Nonpartisan League came into prominence. There is indisputable evidence that a considerable number of other insurance, loan, and mortgage companies either stopped loaning in North Dakota or greatly curtailed their lending there and that such policy was largely prompted by fear of socialistic legislation by the Nonpartisan League Government. Some of these institutions not only refused to consider new loans but even declined renewals and in some cases served notice of foreclosure. The compulsory introduction of The Bank of North Dakota as a middleman between public corporations and local banks has also tended to increase interest rates. As already explained, the banks formerly were able to secure deposits of public funds directly at an average of slightly more than 2 per cent., and in each case knew approximately when such deposits would have to be withdrawn. Under the new system, however, the banks have had to pay 4 per cent. or more for public funds without any guaranty of duration and consequently have been under the necessity of holding higher reserves and of charging higher interest rates. In some cases the local banks have been forced to rediscount their paper in the Twin Cities and the higher rate of interest has been passed on to the banks' customers.

### "ROBBER TAXES" LEVIED

Taxation in North Dakota has been substantially increased under the Nonpartisan League regime although it is difficult accurately to estimate the exact extent to which such increase has been due to radical legislation and to what extent to the natural increase in cost of government during the war. Chief Justice Robinson of the North Dakota State Supreme Court, in a recent letter to the Press, referred to 'the robber taxes' and remarked that 'under the laws of 1919 the assessments and taxes have been marked up to three times those of any former year'. In February, 1919, a bill was passed providing for reclassification of assessments. Under such law, land, exclusive of structures and improvements thereon, railroads and other public utilities, together with franchises, and all real and personal property employed in connection therewith, bank stock, flour mills, elevators, warehouses, and storehouses of all kinds, buildings and improvements upon railway rights-of-way or sites leased from railway companies or other public utility corporations, and structures and improvements on towns and

city lots used for business purposes, were put in class 1, as assessable for purposes of the General Property Tax, at 100 per cent of the full and true value thereof. Property in class 2 which was to be assessed at 50 per cent of its full and true value consisted of all livestock, agricultural and other tools and machinery, gas and other engines and boilers, threshing machines and outfits, vehicles, automobiles, motor trucks and other power-driven cars, boats and all water craft, harness, saddlery and robes, structures and improvements used for homes upon town and city projects, and all other property. Another Act provided for exemption of all structures and improvements on agricultural land and improvements used as a place of residence by the owner of a village, town or city lots to the amount of \$1,000, household goods and furnishings to the amount of \$200, clothing or personal belongings of each individual subject to taxation to the amount of \$300, tools of a working man or mechanic to the amount of \$200, and tools, equipment or other implements of a farmer to the amount of \$1,000. Legislation was also enacted imposing State taxes on income and inheritances.

Opponents of the League point out that in 1918 the State tax levy for all purposes was \$1,572,235, while in 1919 State taxes aggregated \$3,600,000, and that the exemption from taxation of large amounts of personal property has necessitated the shifting of the tax burden to farm lands. Mr. Kozlowsky, who was State Auditor prior to the elections in November, 1920, computed that the actual average increase for the entire State in the tax burden upon farm lands was 64.65 per cent from 1918 to 1919. It is also charged that Professor Roslance, now Director of Publicity and Statistics for The Bank of North Dakota, a "Single Taxer" from Utah, was largely responsible for the new tax law legislation and that it is a distinct move in the direction of the single tax. This charge seems to be contradicted by the enactment of income and inheritance taxes, but it should be noted that the single tax idea in so far as it calls for exemption of improvements from taxation was not without its influence in the drafting of the new legislation. The assessment and taxation reforms appear to be nothing more than an appeal to prejudice and a bid for popularity with the masses. The increase in the amount of tax revenue is due partly to the increased cost of government by reason of higher prices generally and partly to the appropriations for State enterprises and salaries to the very considerable number of additional State employees engaged by the Nonpartisan League Administration.

Persons anxious to defend the credit of the State of North Dakota have pointed to the land boom in Kansas, Iowa and other agricultural States in the West and Northwest and have expressed satisfaction that these unfortunate conditions have not prevailed in North Dakota. There probably always have been and always will be certain unfortunate concomitants of rapid enhancement of the selling values of land or other property of any kind, but it is apparent that the general increase in the value of farm lands, which took place in practically all other agricultural States of the United States and also in Canada, was retarded in the case of North Dakota. The deduction seems to be warranted that the operations of The Nonpartisan League directly or indirectly were a factor in discouraging outside investment in North Dakota farm lands and in keeping land prices low as compared with those in other States.



## "WHILE THE GOING WAS GOOD"

There are indications that the questionable operations and ethics\* of certain of the leaders of The Nonpartisan League and the State Government of North Dakota have had a harmful effect on the moral standards of public employees. To what extent the Civil Service of the State generally may have been influenced is not yet apparent. But there is evidence that certain employees of League officials or the State have registered at hotels under assumed names. Mr. J. R. Waters has testified under oath that the purchasing agent for the North Dakota Home Builders' Association showed him a roll of \$1,000 in bills, stating that such amount represented the take off on one day's business, and that said purchasing agent claimed to be getting \$4 per thousand feet on lumber purchased for the State, and that he believed in getting the money, while the going was good. A letter signed by the Deputy Commissioner of Immigration appears to show that commissions aggregating \$10 per acre between the seller and purchaser of North Dakota lands were contemplated by him. He also stated: "I can handle all the deal through one of the banks here that is very friendly to the League here." The example which has been set by high officials could hardly be expected to have other than demoralizing influences. Further investigation may show whether there were others who believed in getting money "while the going was good."

Some of those who are still loyal to The Nonpartisan League are admitting that serious mistakes have been made. Mr. Walter W. Laggett, a representative of the League in an address in New York on February 20, is reported to have said that the officials of The Bank of North Dakota made a mistake when they loaned so much money to the Scandinavian American Bank of Fargo, in which many officers of the League were interested. By this act the officials of the Bank laid themselves open to just censure, he added. It was also a mistake, said Mr. Laggett, for the State mill to sell flour on consignment to the United Consumers Stores Company, Inc. in which virtually all the stock was held by Nonpartisan Leaguers. While there was nothing criminal in the sale of flour on consignment, it showed political favoritism to sell it to the Stores Company in this way. Even Mr. Arthur Le Sueur, prominent Socialist leader, I. W. W. Attorney, and for a time Executive Secretary of The National Nonpartisan League, has criticized recently the League Administration in North Dakota on the ground that the industrial program is being controlled and managed by politicians and not by experts or business men. . . ."

\*Transactions by the House Audit Committee have disclosed other interesting transactions. It has been shown that Bank Loan No. 26 in amount of \$1,200 from The Bank of North Dakota was made to Mr. John N. Hagan on security of a mortgage on his farm, also that one of the houses built by the Homebuilders' Association was for Mr. Hagan. These contracts may have been entered into without thought of wrongdoing but it should be noted that Mr. Hagan is State Commissioner of Immigration and Labor and a member of the Industrial Commission which controls both The Bank of North Dakota and the Homebuilders' Association, and also that the North Dakota Statutes provide that "No member of any board of trustees or managers, or any officer or employee of any State educational, charitable or correctional institution now existing in this State or which may hereafter be established by law shall be interested directly or indirectly in any contract purchase or sale for or on account of the institution with which he may be connected." Violation of this law is to be considered sufficient cause for removal from office.

(See The New York Times, February 21, 1931, page 4.)

Reference already has been made to the serious banking situation in the State for which The Nonpartisan League must take at least a considerable share of the responsibility. The full effects and costs of the bank failures cannot yet even be estimated. There may be other bank failures, and indeed the list of closed banks has been growing steadily.

So serious is the situation that the banks in many instances are said to be unable to finance the purchase of seed for this year's crop, and the North Dakota Legislature recently passed a resolution memorializing Congress to extend Federal aid to the farmers of the State.\* North Dakota owes much more than a generally recognized to the banks of Twin Cities for generous support in the period of difficulty. Minneapolis and St. Paul banks have helped the deserving banks in North Dakota to the limit of their ability and prudence.

One significant effect of Nonpartisan League propaganda has been the development of the most bitter hostility between the farmers and the business interests. To an increasing extent the trade of the farmers has been diverted from local merchants to mail order houses in the Eastern States. Some of the newspapers supporting The Nonpartisan League have approached fanaticism in charging the banks and 'Big Business' generally with conspiracy to withhold credit from the farmers in order to depress the price of farm products; certain of these papers have practically gone so far as to advise the farmers not to pay their bills to local tradespeople. One leading merchant in Fargo stated that the retailers were dependent upon payment from the farmers. His company had been liberal in granting credit to retailers in some cases six months' credit being given, but the ability of jobbers or manufacturers to collect from retailers is dependent upon ability of the retailers to collect from the farmers, and this business man had decided that only the usual terms of credit would be allowed if the November elections showed that The Nonpartisan League with its policy of class war was supported by the farming community. Newspaper rivalry is also exceedingly bitter, and a business boycott has been openly advocated and practiced by both The Nonpartisan League and its supporters on the one hand, and opponents of the League on the other.

## IN TWO HOSTILE CAMPS

On the train from Fargo to Bismarck the writer made inquiries from a fellow traveller as to the hotels at Bismarck. The reply of the traveller who it appeared was a representative of a manufacturing concern, was highly significant. He said:

'The service at the \_\_\_\_\_ that is the Bolshevik hotel, you know is pretty good, but none of us travelling boys stay there. We go to the \_\_\_\_\_  
When asked for an explanation of this rather startling statement, he said:

The \_\_\_\_\_ referring to the hotel already described by him as Bolshevik) is where the Nonpartisan League people all stay. They have an inn for travelling men and say that we are simply parasites and of no use to the community. They want to legislate us out of existence.

Bitterness of feeling such as was indicated by this conversation appears to be general throughout the State and can only be explained by the virulent propaganda of The Nonpartisan League.

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\*The House of Representatives at Washington on February 28, 1921, made an appropriation of \$2,000,000 for seed grain loans, on the understanding that such loans should be confined to the States of North Dakota and Montana.

It is difficult for a Canadian, accustomed to the Canadian system of responsible party government, to understand a political situation such as has developed in North Dakota. The Secretary of State, State Auditor and Attorney General in the last Administration were originally endorsed by The Nonpartisan League and elected in the victory of that organization at the polls in 1916. Later they disagreed with Mr. Townsend, the Governor, and other Nonpartisan League Government officials, and were have fought The Nonpartisan League from within the Government. The State Auditor, for example, has been editing a publication which attacks The Nonpartisan League, the Administration, and all its works with a ferocity and use of personalities unknown if ever introduced into a political controversy on this side of the international boundary. The Nonpartisan League Administration has retaliated by repudiating these work-traitor officers by reducing the appropriations for their departments and by transferring their functions in order as legal limitations would allow, to other parties favorable to the Administration's policies. At the last primary election the Attorney General was a candidate for re-election as Governor on the Republican platform in opposition to the League organization. The same official recently published a book, Under Penalty, the Anti League Law of North Dakota Passed in One Year in the Penitentiary, in which he challenged attack and arraigned Mr. Townsend, the Governor of the State, and all their associates in most scathing terms. Even the faculties and students of several of the educational institutions of the State, including the University and the State Agricultural College, have been divided into belligerent pro League and anti League groups. The situation would appear to be almost without a parallel in modern history. On a party with the divisions within the Government and among all classes in the State is the antagonism to The Nonpartisan League and its leaders, which is now being exhibited by persons who formerly occupied high and confident positions in the ranks of Mr. Townsend and the Nonpartisan League organizations. Mr. W. Henton, for instance, was formerly personal representative of Mr. Townsend, while Mr. J. K. Waters was manager of The Bank of North Dakota. Both these men are now using their utmost powers to denounce and discredit the League, and in fact have made charges of a most serious character against Mr. Townsend and his associates. The fact is that political animosities have been so stirred that the State of North Dakota is today a veritable theatre of strife and incrimination. Probably under any system of government in which the administration officers as well as the members of the legislative body are elected and not responsible to the Legislature there will be considerable friction and intrigue. But probably nowhere else on earth, and possibly at no time in the history of governments, could one find a government in which there has been more strife and epithet-hurling than among the elective officers of the last Administration at Bismarck, N. D.

The State of North Dakota could hardly be charged with conservatism, yet that neighbor has been among the most severe critics and opponents of The Nonpartisan League's policies in North Dakota. The Governor of North Dakota in a magazine article has strongly denounced the League and its program in North Dakota. Representative R. C. Jones, of South Dakota, speaking in the House of Representatives at Washington, recently, in reference to the proposed appropriation for seed loans to needy farmers

in North Dakota and Montana, "victims of drought and radicalism" said.

"In North Dakota a few years ago there gathered a great bunch of political agitators, long haired socialists, I W W Bolsheviks of a kind, and they entered into a line of experiments that have absolutely bankrupted the people of the State and the Government to such an extent that you could not sell a North Dakota bond on any market in the world.

The visitor to the headquarters of The Nonpartisan League meets a cordial welcome and upon request, is handed a generous supply of propaganda, including a pamphlet bearing the caption 'Crazy-Land'. A sub-title describes the contents as a 'gripping story of North Dakota achievements, by a noted Chicago writer who was of the opinion that people of this State must have been insane to enact so many laws for the benefit of the people. It would seem that the designation of "Crazy-Land" has an application in a different sense than was intended by those who coined the phrase and applied it for.

1 The people of North Dakota gave into the hands of a clever but apparently easy-principled adventurer almost unlimited arbitrary power.

2 Socialists and irresponsible theorists have been imported in large numbers and many of them placed in positions of large responsibility.

3 A daring programme of socialization has been commenced under the aegis and in the name of the State, and public funds and public credit have been used for the experiment. That programme already has had disastrous consequences and the full results have not yet appeared.

4 Factional strife is everywhere apparent. Those who support the Administration today may be tomorrow its most bitter enemies. One hardly knows whom to believe or for how long.

## BEFORE THE LEGISLATURE CLOSED

The 17th Legislative Assembly of the State of North Dakota came to an end at 6:40 a.m. on March 5, after an all night sitting in which the hands of the clock were turned back so that it failed to announce the hour of 12:00 midnight, at which time the session legally ended. The closing scenes in the House of Representatives were comparatively orderly. There were two warm contests during the day and employers in the House had been instructed to remove ink-wells and sundry other objects from the desks of the members, but the precaution proved unnecessary. There were, however, stirring happenings during the closing hours of the Senate, which were featured by brawls, fist fights, and other disorderly scenes and language. During the whole of the session the House of Representatives and the Senate had been in bitter conflict. Each had appointed a committee for the purpose of examining witnesses relative to the audit report which was made in accordance with the initiated law passed at the last general election. The Senate subpoenaed the two Irish attorneys who were counsel for the House Audit Committee, but the House instructed such counsel to ignore the subpoenas. On the closing night of the Senate session the two gentlemen were arrested in a theatre at Bismarck and arraigned before the Senate to testify. One of them refused to submit himself to the oath as a witness on the legal ground that he was under arrest and held as a prisoner. Accordingly the Senate passed a resolution dismissing the warrant of arrest against him and the attorney walked from the room.

The Nonpartisan League supporters in the Senate called upon the Sergeant-at-Arms to detain him, but anti-League forces held the corridor and the attorney escaped in the resulting disorder and excitement. The remaining attorney informed the Senate that he would not answer questions and added that all the Nonpartisans between Hudson Bay and h could not make him do so. The Nonpartisan majority in the Senate carried a motion to send the attorney of the House of Representatives to jail until he would answer questions. Action on his behalf was taken at midnight in the form of an application to Justice Birdzell for a writ of Habeas Corpus, on the ground that he had been committed to jail in violation of his constitutional rights, without warrant of law, without charges of any nature being filed against him and without opportunity to meet those charges whatever they might be. As the court was directing the dismissal of the prisoner on the ground that his detention was illegal and without authority, the Sergeant-at-Arms received a note issued by the President of the Senate ordering the counsels release. One public fight occurred at the doors of the Senate and a private fight between the former State Auditor and a son of the State Bank Examiner was described by a local newspaper as a 'sort of Cook's tour through the Supreme Court Law Library'.

Among the many measures enacted by the 17th Legislative Assembly of North Dakota were the following:

1. A comprehensive depository act, placing The Bank of North Dakota and private banks on an equality in competition for deposits of public funds.

2. Authority for issuance of \$250,000 of "North Dakota Electric Utility Bonds," to provide for establishment of an electrical plant to supply electricity to State institutions in Bismarck and sell electric current to Bismarck citizens.

3. Amendments to the tax laws reducing exemption on residences from \$1,000 to \$500 and limiting exemption on farmers' implements or mechanics' tools to \$500. The exemption of farm improvements from taxation was retained.

4. Provision for the levying of a tax of 2½ per cent. per year on the gross amount of premiums received by every insurance company doing business in the State during the previous year.

5. An act making unlawful smoking in dining rooms or hotels, cafes, restaurants and other public places frequented by both men and women, and providing a fine for violation.

6. An act making it unlawful for any person to have in a retail store more cigarettes than he would use personally and making such possession by a clerk or proprietor of a store prima facie evidence of violation of the anti-cigarette law of the State.

## FINDINGS OF AUDIT COMMITTEES

The compromise which was made with regard to appropriations was not satisfactory to either the Lower or the Upper Chamber of the Legislature or to The Nonpartisan League or its opponents. Only \$25,000 was provided for the Industrial Commission while the Home Building Association was given only \$15,000, whereas the Senate had approved a grant of \$100,000. The Legislature adjourned without making provision for payment of the auditors who prepared the report.



absolute and unrestrained control of an elective body, to be known as the Industrial Commission. The power of this body in the matter of the use and control of such funds is to all practical purposes without limit."

The majority Senate report absolved the Industrial Commission from all charges against it. The minority on the Senate Committee, however, made a report in which it was held that the general purpose of the hearings on the part of the Senate Audit Committee had been not so much the investigating of the affairs managed by the Industrial Commission but to seek to impeach the testimony given by citizens rather than determine whether or not the conditions laid before the Committee in fact existed. The minority reported that the actions of the Industrial Commission since its establishment in March 1919 have been governed almost wholly by political considerations. It is also found that the Industrial Commission—

Permitted the employment in The Bank of North Dakota of a policy of favoritism in the distribution of public funds to private banks that is largely responsible for the fact that today The Bank of North Dakota cannot meet its obligations while various departments of State have been virtually paralyzed by refusal to honor State warrants drawn in payment of their accounts.

Failed to establish proper control over the North Dakota Homebuilders Association in the event that while its affairs are hopelessly muddled.

Approved officials to manage the Drake Hotel and approved contracts between that hotel and private merchants of the State especially with the Consumers' United Stores Company, which is a subsidiary corporation of The Nonpartisan League, with the result that serious losses were sustained by the State.

Countenanced a policy in The Bank of North Dakota by which approximately \$1,000,000 of the reserves totalling \$4,000,000 against insolvent banks are against a group of "friendly" banks most of these banks being classed as League banks, or at least "friendly" in a political way.

Approved and promoted officials of The Bank of North Dakota to deposit public funds in private banks in the event that today approximately \$1,500,000 of these funds are tied up in insolvent banks, the Scandinavian American Bank of Fargo controlled by The League Exchange, another Nonpartisan League subsidiary corporation, affecting the most notable instance of this policy of favoritism."

## WHAT THE INVESTIGATIONS PROVED

The Fargo Forum, in its issue of March 5, published what appears to be an excellent summary of what the investigations actually proved. It is reproduced herewith in part:

1. The Bank of North Dakota was established on sound. Its capital stock consisted of sound and unsalable State bonds which were placed in the Bank and virtually sold to its depositors. No private bank would be permitted to open on such a foundation.

2. The Bank of North Dakota followed a definite policy of subsidizing "friendly" banks with State funds. Privately owned banks which were willing to make big loans to League leaders and to League enterprises were favored with redeposits and loans of public money, not a real question to their share of such funds. One Fargo bank for example got two-thirds of all the money deposited in all the banks of that county, despite the fact that it was comparatively a very small and insignificant institution. This policy amounted to an indirect financing of the private enterprises of the League leaders with State funds.

3. The policy of subsidizing friendly banks was carried out even when there was very good reason to believe that the banks so favored were uninvolved or at least shaky. Sound banking principles were ignored if they interfered with this policy of favoritism. The best evidence of this is that more than \$1,500,000 of public money is tied up in insolvent banks and almost all of this is in so-called "friendly" banks.

4. The announced aim of The Bank of North Dakota at redistributing public funds in such a manner that the greatest need in need of them would get the biggest share was absolutely ignored. I am sure the biggest capacity on the State was and back is today to make public money than it deposited. In other words, the poorest sections of the State were forced to send money to the cities to be placed in League banks there.

5. The Bank of North Dakota is charged to itself the saving power of the State, again etc. in that it has expended public funds with complete disregard of the purpose for which they were raised. It has tied up more than \$1,000,000 of public money which was raised for other purposes, it says on real estate and all sorts of State industries when not a dollar of taxation was levied for those purposes and not a second sold. The State must now raise the money over again to replace \$1,000,000 which has been diverted and must raise an additional \$1,500,000 to restore the money lost in ineffectual financial losses.

6. The Bank has at this time hundreds of thousands of dollars. It claims to show a paper profit of more \$200,000 but this is based on the theory that every failure now it has made will be 100 per cent. sound. Nothing is charged off for losses on borrowed money, nothing has been charged off for losses on real estate loans. And even the so-called profits were admitted, they are nothing of an interest to us the people of the State for which no money has been retained by the Bank.

7. Instead of making the public funds of the State of benefit to the people of the State and permitting them to be more democratically used. The Bank of North Dakota has given an absolute monopoly over all these funds to three men who have chosen only to spend them in private their private schemes. Two of the three men has even gone so far as to lend money to himself to build a house and has made himself a bank on his own loan. Both of them are in a direct violation of the State laws.

8. By freezing the capital working capital of the State and all the public subdivisions it has again made monopoly in industries and other ventures for which no taxes were levied. The Bank of North Dakota has brought the State to the verge of complete paralysis of its government functions. It will very soon be a serious question as to whether or not the various public utility systems can be kept going despite the fact that taxes to support them have been levied and paid.

9. By the same mismanagement of public funds. The Bank of North Dakota has destroyed the confidence of American investors in State bonds, not because they doubt the soundness of North Dakota but because they are afraid to invest their money in such a bank of business chicanery.

But it has been established beyond doubt that the experiment made at Drake was conducted at a loss of more than \$20,000 despite the fact that it was bought from taxes and despite the fact that it certainly sold itself for no less and paid no more for wheat than privately owned mills.

It has also been established that the Drake mill was used in the same way that The Bank of North Dakota was used to further the private schemes of the League gangsters.

The Hiramsholm Association purchased the narrow spectacle of all, despite the fact that it always were barely touched upon.

1. It had no cost accounting system and nobody knew what any individual house cost.

2. Great quantities of supplies were bought at peak prices and are now worth less than they are.

3. It was charged and not denied that the purchasing agent of the Association got a kick-off of \$4 a thousand on all wheat bought for the State and that he made the statement that he made a profit of \$1,000 on one day's business.

4. The Association used up all of its appropriation in one year. This appropriation was supposed to be a revolving fund but none of it was put back upon the houses and nothing was charged the purchasers of houses for their share of the overhead. The taxpayers paid that.

5. No attention was paid to the situation of \$4,000 on the cost of houses. Mr. Lemke's house for example is well worth \$20,000 today.



## The Fargo Forum concludes that.

The industrial experiment so far as it has progressed is a ghastly failure. We are at the end of the road and the end is a mad puzzle. We are in the mud up to the hubs and the State Administration's only solution of our difficulties is to get out.

Since the closing of the Legislature early in March, the difficulties of The Nonpartisan League and its allied institutions have been growing. The State Supreme Court has decided that The Bank of North Dakota is a private corporation and that garnishments of funds deposited by the State Bank in private banks are valid. The loan of \$1,000,000 from the Merchants Loan and Trust Company of Chicago to the Bank of North Dakota, secured by hypothecation of \$1,200,000 of State of North Dakota bonds, became due on March 15, apparently without any arrangement having been made for payment of the loan or for extension of time and with The Bank of North Dakota lacking sufficient cash to meet the obligation. Still another complication has been the filing of voluntary receivership proceedings by the Consumers' United Stores Company, which was organized by The Nonpartisan League and which is said to have collected some \$2,000,000 from farmers in the State. Heavy loans were made by the Scandinavian American Bank of Fargo and other banks throughout the State to the Consumers' United Stores Company on the latter's notes. Anti League forces are circulating petitions for a recall election, aimed at the Governor, the Lieutenant Governor, Attorney General, Commissioner of Agriculture and Labor, three judges of the Supreme Court, and the State Auditor. Petitions are also being signed for initiation of seven laws with provisions for closing The Bank of North Dakota and restricting the industrial programme. A convention of forces opposed to The Nonpartisan League has been arranged for Devils Lake on March 30-31, on a call in which the Chairmen of the Republican and Democratic State Central Committees join. There is some difference of opinion as to the advisability of initiating an election at this time in view of the fact that the Industrial Commission still has some public funds which could be used for election propaganda purposes, that the story of the League's operations is not yet complete, that a recall election involves serious difficulties and there would be some uncertainty as to the outcome, and finally that the Nonpartisan League Government is now incapable of doing further serious harm. A recall election probably will be delayed in any event until the Independents have assurance of a market for State bonds and are in a position to offer certain relief from the present financial difficulties, if The Nonpartisan League be deposed by the voters of the State.

## "Townleyism" in Canada

It cannot be doubted that the radical programme and propaganda in the State of North Dakota have had an influence in Western Canada. The National Nonpartisan League's Public Manager, who also is Editor of The Nonpartisan Leader, said in a letter under date of January 12, 1917: "We now have several thousand subscribers in Western Canada Provinces but they are not members of The Nonpartisan League on this side of the United States. They merely take our magazine."

At various times there has been considerable discussion relative to activities in Western Canada for which The Nonpartisan League was supposed to be responsible. In a letter from Elmwood dated April 10, 1917 and published in The Globe, Toronto, of April 15, Mr. Norman Lambert, now Secretary of the Canadian Council of Agriculture, but then Staff Correspondent of The Globe, told of "a new political movement of considerable importance" which he said had arisen in the West under the name of the Farmers Nonpartisan League. Mr. Lambert stated that more than 1,000 members had been enrolled in Saskatchewan where the movement had been organized first and that in Alberta a strong force of organizers was at work. He added:

A man named S. F. Haight, one of the original promoters of the Farmers Nonpartisan League in the United States, came to Saskatchewan late last year and made his headquarters at Swift Current. From his point he preached the gospel of radicalism and won many scores of adherents. His doctrine appealed particularly to the farmers who had long cried out for aid in their time from the United States. Both in Saskatchewan and Alberta the American settler seems to have become the dominating element in the movement.

Mr. Lambert went on to say that the membership fee in Western Canada was \$15 and that out of each fee the organizer was entitled to a commission of \$4, the balance going into a central fund at Swift Current. He continued: "One of the demands upon this fund is made by a small four-page weekly newspaper called The Nonpartisan Leader, which is being published in Swift Current as the official organ of the League."

The programme of the Farmers Nonpartisan League of Canada as outlined by Mr. Lambert undoubtedly was modelled after the legislation and platform of The Nonpartisan League in North Dakota. Mr. Lambert said:

Having gained control of the Saskatchewan legislature, the Farmers Nonpartisan League would proceed to borrow \$100,000,000 on the strength of the credit of the Province. That of that amount \$25,000,000 would be devoted to the establishment of mills which would grind wheat, barley, of other grains in Saskatchewan and ship it out to the United States by train. To keep constant to the children law a special grading system for wheat would be established for the Province. Another \$25,000,000 would be used in purchasing farm machinery while the balance of \$50,000,000 would become the basis of a system of rural credits."

The Canadian Annual Review, 1917, gives the name of the organizer of the Farmers Nonpartisan League in Canada as Mr. S. F. Haight (now Haight) and places the membership in April, 1917 at 5,000 of which some 3,000 were in Saskatchewan and 2,000 in Alberta. In that

"This plan is another instance of unlimited faith in the ability of the Government to borrow on its credit. The scheme would not of course increase the total amount of money available for loans."

year the organization contested seven seats in the Saskatchewan Legislature, elected one member in Saskatchewan by acclamation and elected two members to the Alberta Legislature. The organized farmers in Western Canada withheld support from the League. At the annual convention of the Saskatchewan Grain Growers in Moose Jaw in February, 1917, a representative of the Farmers Nonpartisan League of Canada outlined the League's programme. He received little encouragement, for, in the words of Mr. Lambert: "The grain growers in the West have flourished on co-operation. They deliberately made the choice between co-operation and Government ownership several years ago. The more influential newspapers of the West also opposed the new movement of United States origin. The Member elected by the League to the Saskatchewan Legislature promptly associated himself with the dominant Liberal party. The League nominated three or four candidates for the Dominion Parliament in the general election of 1917 but they were defeated."

### "A PURELY CLASS MOVEMENT"

In Alberta, the Nonpartisan League retained an active existence until the summer of 1919. Up to this time Mr. James West who is a representative of the Nonpartisan League in the Provincial Legislature had vigorously campaigned throughout the Province in advocacy of the objects of the League and in opposition to the United Farmers of Alberta. When the latter decided to go actively into politics, however, the executive of the Nonpartisan League suspended independent activities and withdrew its organizers, practically merging in the new direct political action division of the United Farmers of Alberta. A well-informed observer in Western Canada, himself a strong supporter of the farmer movement, writes:

The political movement of the United Farmers of Alberta is a class movement to an extent quite unknown elsewhere in Canada, and presumably this meets the desires of the Leaguists, but in Saskatchewan and Manitoba where the farmer movement is steadily widening out to take in other elements of the population in order that it may be a real political party, I should not be surprised to see the Nonpartisan start up again as a purely class movement.

It was thought that the League movement had completely died out in Saskatchewan, but recent developments indicate a revival of activities and the renewal of strong propaganda. The Manitoba Free Press reported that a series of fifteen meetings was held in November 1920, in the Yorkton District and added: "Agents are canvassing the farmers and asking for a contribution of \$15 from each, and another series of meetings is planned for the month of January. Active propaganda work is being carried on through some of the local papers and through the distribution of special literature. The same newspaper in its issue of January 21 1921 reported that the provincial and local organizers for the Nonpartisan League spoke at a meeting recently held at Goodeve, and that Mr. J. A. Gardner, M.P., who was present. In questioning the Nonpartisan speakers drew the information that the \$15 subscription was divided as follows: \$5 to the canvasser for his services, \$5 on newspaper publicity, \$2.50 on newspaper advertising and \$2.50 on election of candidates. One of the audience is said to have demanded the return of his \$15, and after four hours of turbulent discussion the meeting broke up in disorder. The Saskatoon Phoenix in its report of the Goodeve meeting, quoted the Provincial Organizer for the Nonpartisan League as stating that, "The League exists solely for the purpose of

ousting the Martin Government and putting in its place a government of farmers and independents. The central office of the organization was said to be in Saskatoon. The League's recent activities in Saskatchewan appear to be principally in the Northeastern part of the Province among the Ruthenian and other foreign speaking population. At some of the meetings the claim has been made that the League has as many as 13,000 members in Saskatchewan.

The activities of the Farmers Nonpartisan League of Canada appear to have been inspired by the same philosophy as that behind The Nonpartisan League in the United States and the platform and methods of the latter were copied in Canada in very large measure. Nevertheless, it has not been possible for the writer definitely to establish that there was any official connection between the two organizations. In fact the suggestion that any such connection exists is strongly denied by officials of The Nonpartisan League in the United States. Mr. Oliver S. Moore, Nonpartisan League Publicity Manager and Editor of The Nonpartisan Leader, Minneapolis, in a letter dated January 12, 1921, says:

The National Nonpartisan League which has an organization in thirteen Western and Northwestern states, has no organization in Canada, never had any in Canada, and has been trying to promote any organization in Canada and has no plans for doing so in the future.

I note the newspaper statement saying that one N. E. Haight had gone to North Dakota to organize for The Nonpartisan League. It is stated that Mr. Haight was one of the original members of The Nonpartisan League on this side of the line. He may have been one of the early leaders of all thousands of people who joined the League and were present at its inception. But we have never heard of him before. No connection at all. I have been on the movement since its inception in North Dakota in 1915. Certainly I can state fully that Mr. Haight was not at any time held any position of responsibility in The Nonpartisan League and was never a leader in the movement.

Some years ago there was a paper published in Canada, I think in Saskatchewan Province, which was the official organ of a Western Canadian political movement along similar lines to The Nonpartisan League. It contained the rights of Canadian organization. I left the National League at about same time, but I had no connection with the organ on this side of the line. The paper published by the Canadian organization disappeared about two years ago. I remember right on at the time that its subscribers were much taken over by The National League of Minneapolis. The official National magazine of The Nonpartisan League. The Canadian organization replied to the last paper after the disappearance of the first paper, but there was never any connection between the paper and those at the time, the organization and now. I do not know what became of the so-called Nonpartisan League of Western Canada.

The Secretary of the Independent Voters Association of North Dakota, who is one of the leaders of the opposition to The Nonpartisan League, also is without knowledge or record of Mr. N. E. Haight or Haight.

## THE ESSENCE OF "TOWNLEYSM"

It would appear that co-operation among the farmers of Western Canada which has met with some measure of success provided a safety valve which was lacking in North Dakota. The Canadian farmers attempred by co-operative measures themselves to grapple with the alleged injustices in marketing their grain while in North Dakota they nursed their grievances until such time as able but visionary and in some cases very principled leaders appeared on the scene and proceeded to work out their own ideas with money supplied by credulous angry and

well-to-do farmers. It cannot be disputed, however, that there has been much misunderstanding in Western Canada relative to the import and functions and integrity of industrial, commercial and financial organizations. Industrial interests have been represented as opposed to agricultural interests and individual and more or less accidental outgroups of large profits by manufacturing or other companies have been magnified out of all proportion to their importance. It ought to be pointed out that not such mischievous propaganda as this prepared the ground in which The Nonpartisan League of North Dakota has grown a crop of injured credit, increased taxes, higher interest rates, and class antagonism. Canadians generally have dealt with important problems more happily, perhaps, than have their neighbors to the South. But through misunderstanding of this misunderstanding it is possible for well-meaning news agents or individuals to denounce I. L. U. in the abstract and yet to be preaching law and order to prepare the way for a Canadian I. L. U. In essence I. L. U. means an honest business and especially it is opposed to what has been called Big Business. It is the spirit of fairness in those of disappointed hopes against their more successful brothers. It is the small man's distrust of big men. It is the I. L. U. law agent which precepts universalizing denunciation of all successful business men as profiteers. And I. L. U. in this sense appears to be a not unimportant force in Canada today.

Nothing could be more unfair, for example, than much of the criticism of the Canadian banking system for no other reason than that it is big and that its limitations are not properly understood by many of the people. A study of actual banking practices in both countries shows that the legitimate needs of Western Canada are much better served with banking facilities than is the case in North Dakota. Interest rates in most of Western Canada on farm loans are generally lower than the going rate in North Dakota and the farmer who has a reasonable claim for credit is more likely to secure it rather under normal conditions of credit conditions of stress in Western Canada than in North Dakota. The average combined capital and surplus of the banks in North Dakota according to the latest reports was slightly more than \$28,000. There has been little co-operation and each bank is limited by its own resources especially in time of money scarcity. In general at any one time most of the persons with whom a small bank, bank in a rural district has had to do either have money for deposit or are asking for loans. Its banking up its money as branches of a Canadian bank is able to transfer surplus funds quickly from one district to another district where loans are required. Every branch bank in Canada has behind it the resources of all the branches which gives not only a much greater assurance of safety but also makes possible a more stable policy in regard to loans. It is obvious too that the Canadian banks are able to provide loans in comparatively new districts at lower rates than are possible in North Dakota. Mr. Vere Brown, former Superintendent of Western Branches of The Canadian Bank of Commerce in an address at Edmonton on January 23, 1918, stated that 40 out of 93 poorer country branches of The Canadian Bank of Commerce in Western Canada were not paying expenses and some were a long way from paying expenses. A bank opened in North Dakota under similar conditions must from the outset charge a sufficient rate of interest on loans to enable it to pay its way. Its overhead is higher than that of a Canadian branch bank, and it has neither the connections nor the experience

to enable it to perform many of the incidental services which are done by the Canadian branch banks often without any charge\*. The small independent unit bank is not financially able to operate at a loss even for a comparatively short period. As a result it is likely to turn more or less to speculative operations. North Dakota has probably 50 per cent more banks than would be required under a branch banking system and the smaller number could give service to legitimate borrowers far superior to that of the present small unit banking system and at lower rates. The legislature of North Dakota has reduced the legal rate of interest in that State from 12 to 10 per cent and the result has been to curtail loans to farmers. The maximum rate for loans by most of the Canadian banks has been 9 per cent everywhere except in the far North, where population is sparse and branch banks are operated at extraordinary expense, so that a somewhat higher rate has to be charged.

### DANGER IN SMALL BANKS

There has been some demand, particularly from Western Canada, for substitution of independent banks for the branch banks now in operation; such demand is made short sightedly and without proper understanding of the disadvantages and dangers of small independent unit banking institutions. Although the independent banking system of the United States has been greatly strengthened by the creation of the Federal Reserve Board and the divisional Federal Reserve Banks nevertheless even yet the weaknesses of that system under emergency conditions are in striking contrast to the efficiency and strength of the Canadian branch banking system. Under the banking laws of the State of North Dakota a bank may be organized with a capital as low as \$15,000, and formerly the minimum was even less than that sum. A person with a small amount of money may organize a local bank with a few of his friends as the other shareholders, and may have himself and his friends appointed as the officers of the bank, although they may be almost entirely lacking in banking experience. Such system obviously does not give any assurance of permanent sound business administration, or conservative policy, such as is provided under the Canadian system of larger banks. The principal argument advanced in support of the unit bank system is that it promotes the building up of the local territory to a greater extent than does the branch banking system. The answer must be obvious. A small local bank from the outset is hampered by local affiliations. The management has its horizon limited largely by the local district. Loans are made locally for the reason that there is no efficient organization for lending money elsewhere. Under the Canadian system, money is much more fluid and loans are directed to those places where there is the greatest need for them and where the opportunity appears to be greatest for profitable investment. Surely it is not to the credit of a banking system that it keeps local money within the local district, if that money can contribute more effectively to the general good if employed elsewhere. The agricultural communities in Canada and the newer communities in particular do not fully appreciate the advantage which the Canadian branch banking

\*Mr A. K. Phipps, Assistant General Manager of the Imperial Bank of Canada, in a recent address at a gathering of bank managers pointed out that "in many instances a great deal of work which should properly have been paid for was being done for nothing." He also criticises the practice of the Canadian banks in charging nothing for

system has been to them in collecting surplus funds from industrial and other districts where deposits are in excess of needed loans and making that money available as working capital for farmers who can use it profitably.

To some extent the Federal Reserve system has broadened the horizon of local banking institutions in the United States but their vision still is largely local, whereas that of the Canadian banks is primarily national and to some extent indeed is becoming international. There was a time when banking was almost entirely local but that stage has been passed. Finance and the business of banking have been organized on a world scale and those responsible for financial and banking policies ought to have world knowledge. In any country there are only a limited number of persons who by temperament and training are qualified to serve as leading executives in banking administration. The local banking system in the United States leaves the banking business to men of little or no experience in the case of the smallest institutions. On the other hand the Canadian banking system provides a means of testing the qualifications of bank employees and promotion to the higher offices for those who show unusual aptitude. The banker of mediocre ability still has a place in a branch institution but the Canadian system supplements the judgment of the local banker in far as general policy is concerned by the judgment of a few selected high executives thoroughly trained in the principles and practices of banking with world information at their disposal and with the ability correctly to interpret such information and translate it into sound and wise policies. The Canadian system is perhaps somewhat less personal than is that of the United States but therein is a source of strength and efficiency. Moreover under the Canadian system the local vision of the branch bank is checked and adjusted to the broader national outlook and wider knowledge and understanding of the head office.

## PANIC TO AVERT PANIC

A comparative study of the operations of the banking systems of the United States and Canada under conditions of industrial and general economic readjustment discloses important advantages of the branch organization. For months before the break in prices occurred last fall the Federal Reserve Board in the United States had been urging caution in making loans and pointing out the dangers of any further over-extension of credit. There are some 8,200 National banks in the United States together with about 17,000 State banks and many trust companies which do a general banking business, and the Board's advice was practically unheeded by the multitude of small banks, the only effective means which the Reserve Board had of controlling the situation was by a sharp advance in interest rates on rediscounts. The effect of the drastic action taken by the Board was exceedingly severe and conditions bordering on panic resulted. It may be that the Reserve Board waited too long and that a more gradual advance of rates would have been effective without being excessively severe and costly but it is also apparent that the Board can only bring the weight of its knowledge of the world situation to bear upon the policies of the unit banks by action which is drastic and more or less spectacular and sensational. In the words of one close student of the Federal Reserve system, the Federal Reserve Board "has to get on the top of the hill and yell like h—". Such action

may cause a panic in the very attempt to avert panic. On the other hand, the Canadian banking system, comprising 18 banks with a total of 4,875 branches in Canada, negotiated the difficulties incidental to the turn in prices without the slightest suggestion of panic or embarrassment. A policy of caution and preparedness against contingencies was adopted in ample time and was made effective through the control by the Head Officers of the operations of their branches. As a result, Canadian industry (including agriculture and commerce) have been assisted through a much more gradual and less costly readjustment than that which has taken place in the United States and elsewhere. Over-extension of credit such as occurred in the United States was never permitted to take place in Canada in anything like the same measure. Undoubtedly there has been inflation here but it occurred rather as a result of the Government's financial needs and probably unavoidable increases in the circulation of Dominion notes than of inflation by the banks. Moreover, the branch banking system by reason of its organization was able to foresee and to prepare for the inevitable economic adjustments and price declines, and, by reason of such preparation, to extend more liberal aid when and was needed most urgently.

## BANKS AND POLITICS

In contrasting the banking facilities of North Dakota with those of the Provinces of Western Canada, it should be pointed out that North Dakota, with a population as at January 1, 1920 of 645,640 had approximately 173 National banks and 706 State banks, a total of 879, or one bank for every 735 persons. At the same time Manitoba has only one bank to 1,842 persons, Saskatchewan had one to every 1,265 persons, and Alberta one to every 1,373 persons. Yet by reason of the superior efficiency and economy of the branch banking system the relatively smaller number of institutions in Canada is able to afford a better service at less cost to the borrowers. Interest rates on loans all through the United States have been higher than have been interest rates in Canada under conditions of money stringency. Indeed interest rates on bank loans and discounts are more uniform and stable in Canada than almost anywhere else in the world. Even under recent conditions when money was scarce regular Canadian borrowers offering the best commercial paper could get accommodation from their banks at 6 per cent., although the prevailing rate in New York ranged from 7 to 8½ per cent. and the Federal Reserve Banks were charging 7 per cent. on rediscounts. Apart from the consideration that the average resources of the unit banks are small, the larger relative number of banking institutions in North Dakota as compared with Western Canada, appears to be due in some measure to the extent to which the small unit banks in the United States operate on political lines. In many small towns there will be found two banks, one Democratic and the other Republican. Every small banker in the United States and many of those who administer the larger banking institutions are "in politics." The practice of bankers in the United States actively participating in politics is defended as an obligation of good citizenship, but unquestionably there are strong objections and it can hardly be claimed that the practice tends towards improvement of banking service. Certainly such participation in partisan controversies in Canada would be resented. The Canadian banks occupy an impressively different



position in the communities which they serve. Canadian bankers as a rule have studiously avoided participation in controversial political issues. The function of the banks in this country is recognized as national service rather than the attainment of national advantage. Because they are not in politics Canadian bankers can view great national problems impartially and their opinions have real influence and weight with public men and with the masses at large. Even although he may be entirely sincere the American banker too often is regarded as playing politics, and consequently his advice is discounted. The Canadian banker on the other hand is able to give true leadership in economic matters to an extent which is impossible in the United States.

## INTEREST ON SAVINGS DEPOSITS

The Canadian banks are often criticized for maintaining a fixed interest rate of 3 per cent on savings deposits. Such policy may not be strictly scientific but the argument is not altogether unaided. Some years ago the rate of interest payable on deposits was determined by each bank independently and fluctuated in accordance with the demand and supply of money. In 1900 for example the interest rates paid on savings deposits in Ontario at one time were as high as 5 per cent but within a few months fell to 2 per cent. There was keen competition between the banks for savings deposits and a bank which was conservative in its administration of such trust funds was at a disadvantage as compared with the bank which was willing to take greater risk. In other words the lack of uniformity in interest rates was an encouragement to unwise and more or less speculative banking. Again, it ought to be recognized that uniformity, stability and evenness in interest rates make it possible for the banks to maintain a much more even, uniform and stable interest rate on loans.<sup>1</sup> That the difference between the rate paid on deposits and that received on loans constitutes net profit to the banks is a mistaken idea. Not only are there administrative expenses involved but a considerable proportion of the money received on deposit must be kept idle as immediately available cash to ensure repayment on demand. Then there is the second line of protection to depositors, consisting of assets immediately convertible into cash. By reason of the character of such assets the interest yield is comparatively low. In fact, the Canadian chartered banks keep between 50 and 70 per cent of their assets in absolutely liquid form. In so doing they provide assurance to depositors that their money will be repayable in strict accordance with the contract but the banks' policy in this connection keeps them from investing in longer term, higher interest securities the trust funds left by depositors and subject to withdrawal practically

<sup>1</sup>The last annual report of the Comptroller of Currency of the United States dated December 3, 1920 contained a section under the heading "Money Rates in Canada Much Below New York Rates." The Comptroller pointed out that rates of interest in New York during 1920 "have been higher than in any other city in the world."

The senior Manager of The Bank of Montreal in his report at the last annual general meeting of the shareholders of the Bank, referring to rates of interest on savings loans in Canada said: "The rate of interest on the mortgage and manufacturing loans is about the same as it was before the war."

As interest rates are constantly made between Canada and the United States owing to general similarity in conditions, our annuals attract special attention and that with their attention is acute here as it is across the line the price of money is materially lower in the Dominion. This condition, in face of world-wide high interest rates has attracted much attention in other countries and is regarded as a tribute to Canada's good banking system."

on demand. The Manitoba Government is now paying 4 per cent interest on savings deposits, but has announced that it will not keep any large reserve and appears to be relying upon ability to raise money by sale of bonds, borrowing from the banks, or otherwise, to meet any demand for withdrawals for which cash is not immediately available.

The Canadian banks reserve the right to require notice of withdrawal of savings deposits. There appears to be no uniformity in respect of the period of such notice which varies from 7 to 15 days or longer, but this is of only nominal interest inasmuch as in actual practice savings deposits invariably are withdrawable on demand. No one bank would take advantage of the regulation unless all did so and a uniform policy were adopted, indeed discontinuance or even temporary suspension by the Canadian banks of the practice of permitting withdrawal of savings deposits upon demand by cheque or otherwise is one of the least likely occurrences that one could imagine. In respect of interest rates paid on savings deposits, liquid security maintained and the practice of repayment upon demand and acceptance of cheques drawn upon such deposits, the depositor is dealt with as generously and favorably in Canada as in any other part of the world. The Federal Reserve Board of the United States has issued the following definition of a Savings Account:

The term savings accounts shall be held to include those interest bearing accounts of the bank in respect to which the printed regulations, accepted by the depositor at the time the account is opened, a. The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made and b. The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

In this connection the Deputy Comptroller of the Currency, Washington, writes: "It is understood that deposits in the savings departments of banks in the United States are generally subject to the conditions referred to therein."

## PROFITS OF CANADIAN BANKS

Again it is alleged that the Canadian banks make excessive profits. A leading agricultural paper recently complained that our banking institutions pay all the way from 10 per cent to 16 per cent and are piling up large reserves. But it must be remembered that Canadian bank stocks invariably are sold at a substantial premium and that the premium goes to the banks' Rest or Reserve Fund. The stock of the new Great West Bank of Canada is being sold at 125 and the stock of other Canadian banks has been sold at even a greater premium. Then, too, for years the banks paid only small dividends or no dividends, earnings being carried to the Rest. This policy amounted to additional cash investment, and today the investment by the shareholders of the Canadian banks, by capital subscriptions and reinvestment of past earnings, aggregates nearly \$362,000,000, while dividends are paid on the par value of only \$128,460,163 of paid up capital stock. Dividends of even 10 per cent on the capital stock would represent a return of less than 4 per cent on the total investment in the banks.

One of the most frequent forms of attack on the Canadian banking system is based on the assumption that in some manner which is not explained the banks in the Dominion have a monopoly of money. Such criticism is neither true nor just. In so far as the banks are today the principal depositories for savings, such position has been won by sheer

efficiency, by recognition that such moneys are trust funds, and by sound administration which has won the confidence of the Canadian people. There is no limitation on the number of banks which may be organized in Canada so long as the provisions of the Bank Act are met. Such requirements are necessary to protect the Canadian people against small weak banks organized by people of little responsibility. There is nothing to prevent the agriculturists or any other class or group in Canada organizing and operating a bank if they are willing to provide a guaranty in subscribing to at least \$500,000 capital stock of which not less than \$250,000 must be paid up and otherwise complying with the Bank Act. A bank is simply a group of trustees who themselves provide large capital and assume a liability to insure the amount of their capital as a guaranty to depositors and other relatives. There are now 47,674 shareholders in the Canadian banks and after ample allowance for possible duplication the statement may safely be made that there are approximately 45,000 separate individuals who own stock in the Canadian banks. These stockholders have made an investment of more than \$250,000,000 in capital and Res. as a guaranty and have assumed an additional liability of almost \$1,250,000,000. The irresponsible charge that a few men at the top control all the money of the country is disproved by these figures. Depositors in the Canadian banks control their own money but have loaned it to certain trustees (the banks), under definite conditions as to interest repayment etc. and the trustees (the banks) have given heavy guaranties to protect such depositors. Having provided the guaranty in the form of capital and double liability required by the Act a bank is chartered to accept deposits which represent claims to actual goods and services not immediately required by depositors and to lend as large a proportion of such deposits as experience may show or as the officers believe to be safe and expedient.

One of the most unfair charges made against the Canadian banks is that they are responsible in some way for the exchange discount on Canadian money in relation to United States funds and that they manipulate exchange to their own profit. The allegation is utterly devoid of truth. On the contrary, the banks act as the great exchange agencies of the country and they perform an exceedingly valuable service on a margin of profit which is almost incredibly low. It would be out of place here to attempt any analysis of the factors responsible for the exchange situation. Exchange is regulated by forces which the banks are quite incapable of controlling. Exchange rates are determined by the demand for and supply of bills of exchange. The banks simply transfer the market premium on high exchange currency from the buyer to the seller and their service is of importance in saving to both buyers and sellers large brokerage expenses. For example the holder of a cheque payable in United States money can obtain from the Canadian banks the benefit of exchange within an exceedingly narrow margin. In most transactions of this kind the charge made by the banks is not over one eighth of one per cent and the net profit to them is surprisingly small. In many cases the gross charge is less than or equals per war exchange. Similarly the purchaser of foreign exchange can obtain drafts at a cost which is very close to market quotations. Such service is made possible under the branch banking system, by reason of the large amount of business of this character which is done by the banks and the fact that such business is collected and handled

through the head office and is largely cleared among the banks themselves. As a result the seller of foreign exchange has a ready market which enables him to sell the full value of what he has to sell without the buyer of foreign exchange can pay him cash without excessive charges. It can hardly be questioned that if Canada had its deposit upon the independent and bank system the charges made by the banks as middlemen in the handling of exchange would be very much higher.

There remains to be considered the charge that the banks do not supply adequately the legitimate needs of the farmers.\* In part at least this criticism arises from a misunderstanding of the functions, powers and limitations of a bank. A bank does not lend credit but money and cannot safely increase its loans without limit. The common mistake is in failing to recognize that under sound financial practice lending institutions cannot at should not lend in excess of the total of their capital, reserve deposits and any money which may be raised by such institutions by the sale of bonds or debentures. For such loanable money as is available the agriculturalist must and probably should compete with other prospective borrowers for such competition is the only known means of determining that part of the loan which is economically as of less urgent importance. What is prohibited is simply a loan need money in the practical test as to whether an applicant is entitled to a loan and such ability is demonstrated in practice by competition under the rules of the various lending organizations. The supply of money in the world today available for loans in proportion to the demand for loans actually is much smaller than has been the case for many years and the desirability of credit for any class or segment must be considered in the relation to the entire world situation. For that reason loans are not obtainable on as favorable terms as when the supply of money was more free and the demand much less keen.

There has been much criticism of banking institutions, especially in the United States, for failure to increase loans to farmers by short term accumulation in order that they might hold their products at higher prices. But it must be remembered that commercial banking is largely a seasonal proposition and must conform to the needs of sound business principles as to be followed. Loans to commercial banks should largely be regarded as loans to assist in the production and marketing of goods and not to aid the producer to speculate with such goods after they are produced or the dealer to speculate with them after they have come into his possession. After a farmer's crop is raised a bank which has loaned money for the purchase of machinery and perhaps for seed and other equipment and it may be has carried the loan over over one or more past crop seasons may properly call for sufficient liquidation to pay off a substantial part of such loan. This policy is applied to all other borrowers and it is difficult to see why the farmer alone should be exempt. An officer of one of the leading banks in Minneapolis told the writer that his bank made it a rule to require every grain account to be absolutely paid up in May, June, July or not later than the first of August in each year so that funds would be available for assistance in connection with the marketing of the new grain crop. As soon as the crop is produced money is needed to finance it through various stages of

\*On a par with this charge and arising from the same general cause, namely the insufficiency of loanable funds in the world to meet all demands was the criticism of the business community of London, England, last November that there was a shortage of bank loans.

transporting, manufacturing and marketing and the farmer may reasonably be called upon to meet his obligations in part at least. Certainly the farmer who already is heavily obligated to his bank has no just claim to further credit in order to enable him to delay the orderly marketing of his products. As crops are unseasonable, so a measure of seasonal settlement of obligations may properly be required.

## WAITING FOR ADVANCES

And even if the banks had ample funds available for additional loans to the agriculturists to enable them to hold their products in the hope of higher prices and to defer payment of their obligations what assurance is there that prices will advance? When wheat was selling at \$2.00 per bushel North Dakota farmers were advised to hold their grain for \$2.00 per bushel. Many of the local banks with better knowledge of the world's situation consented to delay collections on farmers' obligations and in many cases made additional loans to finance the producers in their "waiting policy." But the price of wheat did not advance to \$2.00 instead it has declined by approximately one third. The farmers have lost heavily and the banks too have suffered severely. Such has been the outcome of most attempts to defer marketing and of most valuations in banks and banks which have made loans for such purposes frequently have had a good right to doing. The theory is that the crowding of grain to the markets immediately after threshing gives it an opportunity an opportunity to "depot" the price and that the agriculturists would benefit by a more even distribution of sales over the crop year but such theory is not supported by the facts. Experience has shown and new records prove that on the average of several years a producer realizes practically as much by selling as soon as a crop is ready for market as by waiting until later in the season. Careful examination of the records of the Department of Agriculture at Washington and the annual reports of the Chicago Board of Trade was made recently by Mr. George H. Johnson, Cashier of the Citizens State Bank of Wahn, North Dakota. Mr. Johnson's findings were as follows in part:

For the years 1914-1915 the farmer who held his wheat until the six month period usually later received more and one cent and more per bushel than the farmer who sold about a year before. Then one and one cent more would not have the same profit paying for interest on money, shrinkage of grain, storage and insurance.

For the years 1915-1916 the farmer who held his wheat until the six month period usually later received not one cent more per bushel than the farmer who sold about a year before.

In the past month's years the North Dakota farmer who marketed his wheat in November and December made more money than the one who held his wheat until spring.

The prevailing idea that wheat is always much higher in the spring than in the Fall is a fallacy.

No farmer can go through these tables and then claim that the Minneapolis, Boston of Commerce and the Chicago and Duluth Boards of Trade fix the price of wheat so as to force the farmer to accept a low price when he markets his grain and then blame the poor farmer they pass it on to the consumer.

\*Referring to the present situation Mr. C. A. Rogers in addressing the shareholders of the Farmers' Meeting at The Farmers' Bank on January 20th 1921 said:

"But it has been for the unfortunate multitude of some producers who failed to take advantage of the excellent prices which prevailed in the Autumn of 1920, the greater portion of Canada's products would now have been marketed with a further general decrease in individual debts and a strengthening of the country's financial position."



weakness, mismanagement, and unsound and even dishonest practices in the independent unit banking system.

It is probable that in any period of money stringency there will be much uninformed criticism of financial institutions. The restrictions which have been placed on the lending powers of the branch banks have been misunderstood. Branch managers are allowed to make loans within certain limits without first obtaining permission from the Head Office and the requirement that Head Office approval be secured before either the total loan allowance for the branch or the limit to any individual borrower be exceeded is a conservative measure in the interests of the entire country. To allow every branch manager to make loans without restriction except that imposed by his own judgment would quickly produce a chaotic situation and make impossible the continued successful operation of the branch banking system. The Canadian banks already provide short term rural credits and have always shown an appreciation of the needs of agriculture and a willingness to co-operate in so far as they could do so legally and without violating what they believe to be sound banking principles. There is much significance in the fact that in the rural districts of Ontario and Quebec there is comparatively little fault finding with the Canadian banking system and that the principal criticisms emanate from the Western Provinces where poorer conditions still obtain to a very large extent. Agricultural communities, liable to the risks which are inevitable when dependence is placed principally upon a single crop, cannot expect to borrow as cheaply or to borrow as much as can communities where diversified agriculture has been developed to a much greater extent. The Province of Saskatchewan has recognized the risks incidental to grain farming and in advertising Saskatchewan farm loan debentures has said that millions of dollars are needed to enable the farmers of Saskatchewan to minimize their annual wheat gamble by means of diversified agriculture. As mixed farming is adopted to a steadily increasing extent in Western Canada, one may expect that the present supposed grievances on account of high interest rates will be overcome in large measure.

## NATIONALIZATION PROPOSALS

There remain to be considered various proposals looking to nationalization of the Canadian banking service. Hon. John Hart, Minister of Finance in the Provincial Government of British Columbia, was quoted recently as favoring

The establishment of a Provincial Bank so that the Provincial Government can accept deposits and keep the money of the people of this Province here for the development of this Province instead of having it sent East by the big banks through their branch systems and loaned out at high rates in Toronto, Montreal and New York while business men here cannot get credit.

At the recent convention of the United Farmers of Manitoba the following resolution\* was adopted:

Whereas in our opinion the Canadian banking system is far from meeting adequately the needs of the people of this country

Therefore we urge the Canadian Council of Agriculture to prosecute debates and immediate investigation with a view to offering to the people a progressive banking policy which shall be more fully in accord with our general principles than that which now obtains—

\*The United Farmers' Guide, issue of January 30, 1921, p. 17.

The United Farmers of Alberta have declared themselves in favor of the nationalization of our banking and credit systems by the following resolution<sup>\*</sup> which was passed at the convention in Edmonton in January of this year:

Whereas the banking system is a menace to most of the rank and file of the people and whereas there exists a grave suspicion that the financial institutions are taking a very unjust toll of real values from the people who produce real wealth in return for interest, loans and money and whereas it is our duty to prevent exploitation and spread education on these matters, therefore be it resolved that this Convention go on record as in favor of the nationalization of our banking and credit systems.

Even the Green Growers' League has withheld approval of this programme and has advised that attention be paid to the immediately practical. The resolution is indeed unusual in that it first admits lack of understanding of the problem and then endorses a definite scheme as a substitute for the present banking system, a case of prescription before diagnosis. But the fact remains that in three of the Western Provinces there are political plans which require Provincial or Federal Government banks. In effect these parties declare for replacement by a Government banking organization of the present efficient service of the Canadian chartered banks and their branches. The States of Vermont, Kentucky, Delaware, North Carolina, South Carolina, Indiana, Mississippi, Illinois, Tennessee, Alabama, Louisiana, Georgia, Florida, Arkansas, Missouri, and North Dakota all wanted and obtained State banks but the experiences have been so unhappy and in some cases disastrous that many of them now provide constitutional protection against further government experiments in the banking field. North Dakota did, has its State Bank but that institution after a brief but eventful history from July 26, 1914 to date has lost the confidence of the public, as is shown by the passage of the initiated measures referred to in the preceding pages, has brought no advantage but much actual harm to the State and today is in a sadly crippled condition, quite incapable of providing any effective relief for the deplorable banking situation in the State and indeed unable to meet its own demand obligations. And Canada would have no more right than had North Dakota to expect to escape difficulties with State banking.

In the preceding pages an effort has been made to analyze discussion which has taken place in Canada within recent months relative to banking and to bring to bear upon the various proposals which have been made some of the present experiences of North Dakota. The Canadian Bank Act is due for decennial revision in 1923 and proposals for changes should be thoroughly analyzed. Whatever revision is made of any ought not to be in response to the demands of any class or section but in the interests of the Canadian people as a whole with due regard to the best practice elsewhere and the experience of other countries and in observance of well-proved principles of sound finance.

<sup>\*</sup>The Green Growers' League issue of January 26, 1921 p. 24.

<sup>†</sup>The Green Growers' League issue of February 2, 1921 p. 4-144.



## Appendix

### FARMERS AND THE GRAIN FINANCERS: AN ANALYSIS OF THE AGRICULTURISTS' INDENTMENT OF PRIVATE ENTERPRISE, IN CONNECTION WITH THE PROVISION OF FACILITIES FOR THE MARKETING OF FARM PRODUCTS.

In view of the fact that the complaints of the farmers in North Dakota were somewhat similar to those of the agriculturists in Western Canada, the subject has a special interest for Canadians. Reference has been made in the preceding pages to Canadian World's Fairings and to the United States Department of Agriculture and to its general publications. Such investigations included a thorough examination of the agencies and the methods of the Minneapolis Branch of Farmers'. The agencies are here identified as the representatives of the farmer relative to marketing commodities in their connection. Problems being faced that

The movement takes a both economic and part and part in the fact that a combined effort on both are engaged in the grain trade, including the farmers themselves. He regards the fact as a combined effort of a lot of grain went into the hands of the men and that the products taken by the farmers are small and they perform such a small function in marketing and handling in the price as well as in applying the marketing agency is one that has not been adequately helping the farmers but one to whom there are a number of the fact that the movement in the marketing agency. The provision of grain prospects has not done much to make possible the movement market offered by the grain and cotton exchanges in the department in fact as well as in the movement during trading hours in the three persons, too, perform a useful function.

Problems being faced that in the case of grain Minnesota farmers received approximately 75 per cent of the price finally paid for wheat products. The small

The farmer has a small net part out of the price paid for his product of wheat. In the Minneapolis market, for example, when wheat is sold at 40 cents and the grain goes to the farmer to the three marketing agencies of wheat but the three agencies take a small part and the dealer, which comes out of the wheat and the farmer, is a small 40 per cent of the price finally paid for the three and marketing agencies into which the farmer at least is disappointed. In this instance, the wheat has gone through a marketing agency from the farmer to the 100 to 100 cents paid by a commission man, possibly, used by a terminal elevator, manufactured into flour in the flour mill sold to a whole sale grain, and then to a retail dealer and yet the producer receives 40 per cent of the final price."

Further

Analyses have also been made of the costs of marketing various commodities and from these figures certain important conclusions may be drawn as follows:

1. For most commodities the cost of railroad transportation plays a relatively important part. It has been estimated by representatives of the United States Department of Agriculture that freight rates run about 7 per cent of the retail prices.

2. The wholesalers in the large cities are responsible for a smaller share than in the spread than is commonly believed. The high degree of efficiency attained by the wholesale trader in the large cities under adverse conditions deserves high praise.

3. By far the most expensive step in the marketing process is the retail step.

From numerous estimates of costs of marketing different commodities it has been roughly ascertained that on the average the retailer takes about 17 per cent of the spread between farmer and consumer. In other words the retail step takes a share nearly as large as the share taken by railway, shipping, transportation companies, and wholesalers and jobbers combined. The marketing problem is largely a problem of retail merchandising. And yet the wide margin taken by the retailers is not due to any greater profit accruing to that class of middlemen, rather it is due to the high expenses of retailing.







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